FINANCING NEEDS OF THE HIGHWAY TRUST FUND FOR FISCAL YEARS 1983–1986

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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FINANCING NEEDS OF THE HIGHWAY TRUST FUND FOR FISCAL YEARS 1983-86

WEDNESDAY, DECEMBER 1, 1982

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing follows:]

[Press Release of Tuesday, Nov. 23, 1982]

Hon. Dan Rostenkowski Announces a 1-Day Public Hearing on the Financing Needs of the Highway Trust Fund for Fiscal Years 1983-86

Hon. Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, announced that the Committee will hold a one-day public hearing on Wednesday, December 1, 1982, on the financing needs of the Highway Trust Fund for fiscal years 1983 through 1986. The hearing will begin at 9:30 a.m., in the Committee's main hearing room, 1100 Longworth Building, to hear from representatives of the House Committee on Public Works and Transportation, the Administration and invited public witnesses.

BACKGROUND

Under present law, the Highway Trust Fund and its related excise taxes are established through September 30, 1984. On May 12, 1982, the House Committee on Public Works and Transportation ordered reported H.R. 6211, with amendments, which authorizes increased spending for highway programs for fiscal years 1983 through 1986. As an interim measure, the House Committee on Public Works and Transportation also reported a committee amendment providing authorizations for fiscal year 1983 only. The Committee on Ways and Means reported a bill, H.R. 7092, to extent the Highway Trust Fund and its taxes for one year, through September 30, 1985, to accompany the fiscal year 1983 authorization bill. Both of these measures are now pending before the Committee on Rules.

Congressman James J. Howard, Chairman of the Committee on Public Works and Transportation, has recently expressed interest in the multi-year highway authorization bill initially approved by his committee. The Administration has also indicated support for a multi-year bill that increases the level of highway spending. Accordingly, the Committee on Ways and Means expects to receive testimony on the adequacy of the present tax levels for highway user taxes for the period covered by the reported bill. Further, the Committee expects to receive testimony from the Administration and other invited witnesses on the findings of the cost allocation study conducted by the Department of Transportation and the study of the highway excise tax structure conducted by the Department of the Treasury required by the Surface Transportation Act of 1978 (Public Law 95-599).

The highway excise taxes in effect under present law are: (a) 4 cents per gallon on fuels, (b) 6 cents per gallon on lubricating oil, (c) 10 percent on trucks, (d) 8 percent on truck parts, (e) 9.75 cents per pound on highway tires, (f) 4.875 cents per pound on non-highway tires, (g) 10 cents per pound on inner tubes, (h) 5 cents per pound on tread rubber, and (i) $3 per 1,000 pounds on trucks with weight of over 26,000 pounds.

PROCEDURE TO BE FOLLOWED FOR SUBMITTING WRITTEN COMMENTS

Any interested person or organization may file a written statement for inclusion in the printed record of the hearing. Persons submitting written comments should submit at least five copies by the close of business Wednesday, December 1, 1982, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. Those wishing to have their written statements distributed to the press and the interested public, may submit 75 additional copies for this purpose if provided to the Committee office before the hearing begins.

Chairman ROSTENKOWSKI. The hearing will come to order.

Today's hearings have been scheduled to assess the financing needs of the highway trust fund and other aspects of our transportation system for the next 4 years in light of the renewed interest in the multihighway authorization bill expressed by the Honorable James Howard, chairman of the Committee on Public Works and Transportation, and the administration. In May of this year, the House Committee on Public Works and Transportation reported a multiyear bill, H.R. 6211. H.R. 6211, the Surface Transportation Assistance Act of 1982 will significantly increase the authorization levels for highway programs over the period fiscal year 1983 through fiscal year 1986, an action many support given to the deteriorating condition of our Federal highway system.

This committee, however, has the difficult task of determining how to pay for this increased spending. I hope those who supported the spending provisions will keep the other side of the equation in mind as well.

I look forward with great interest to hearing the administration's recommendations on this entire issue, the spending side and the revenue side. Let me say at the outset, Congress realizes in the light our recent experience with the budget that authorization levels are not the whole story. We will always want assurances on the level of obligations over the period in question.

On the revenue side, we are most interested in the findings of the Department of Transportation's cost allocation study, the implications of that study for the present highway user taxes and the administration's policy recommendations for implementing those findings.

Finally, we look forward to hearing from the Treasury Department on its findings from the study it has been conducting on the highway excise tax structure. Clearly, if we are going to be restructuring the highway user taxes in line with the cost allocation study, we should always consider administrative simplicity and compliance factors at the same time.

With that in mind, I look forward to hearing from my good friend, the Honorable Drew Lewis, Secretary of Transportation. However, before you present your testimony, Mr. Secretary, I would like you to test your microphone.

Secretary LEWIS. I'm not sure everybody knows that inside problem.

Mr. CONABLE. Mr. Secretary, we are aware you had a problem with the chairman and the electronic media this morning.

Secretary LEWIS. The chairman had a problem.

Mr. CONABLE. Well, the committee has a little problem with this bill in that we don't know much about. We are grateful for you coming up here to explain it. We hope you will not assume that we have any great understanding of it because as far as the committee is concerned, it was filed only yesterday—was not filed by the committee, but by the Republican leadership. I think there is some general support for the idea of the highway tax, but this is more complicated as a piece of legislation than the public perception of it. It is important that we understand the detail and take enough time here in this hearing so that the committee can move on it with the kind of knowledge that will permit us to carry the burden of support or opposition on the floor with the kind of detailed and precise information that our colleagues will expect of us.

We will be grateful for your patience in explaining it in full detail. We assure you of earnest and cooperative interest here on the committee.

Thank you.

Mr. SCHULZE. Mr. Chairman, again I would like to welcome my district's most outstanding constituent and citizen to the committee. We are all very proud of him and the job he does.

Chairman ROSTENKOWSKI. I am happy the gentleman has voiced his recognition of an outstanding citizen. I hope he is as cooperative in writing the legislation.

Mr. SCHULZE. I am always cooperative to a point, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Secretary, please proceed.

STATEMENT OF HON. DREW LEWIS, SECRETARY OF TRANSPORTATION, ACCOMPANIED BY DARRELL M. TRENT, DEPUTY SECRETARY OF TRANSPORTATION; JOHN M. FOWLER, GENERAL COUNSEL; ARTHUR E. TEELE, JR., ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION; AND RAYMOND A. BARNHART, ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION

Secretary LEWIS. Thank you, Mr. Chairman.

I have submitted my written testimony to the committee. I would like to have that made part of the record.

Chairman ROSTENKOWSKI. Your entire statement will be included in the record.

Secretary LEWIS. With me is Darrell Trent, Deputy Secretary of Transportation, John Fowler, General Counsel, Art Teele, head of the Urban Mass Transportation Administration, and Ray Barnhart, head of the Federal Highway Administration.

Our purpose, in answer to Mr. Conable's question, is to see that we give you the details you require on this bill. Basically, the bill we are presenting provides a fund of $5½ billion per year which is vital to the restoration of our highway, bridge, and mass transportation capital needs in this country. We have, in addition to that, as Mr. Conable indicated, incorporated the cost allocation study mandated by Congress in terms of the distribution of user fees on the trucking industry into this bill. We think we have incorporated it in an evenhanded way. I am sure there will be questions on that.

Rather than go into detail, I think we will wait until you ask the questions that are on your mind. I would prefer not to make any further comments now, but to respond specifically to your concerns.

[The prepared statement follows:]

STATEMENT OF HON. DREW LEWIS, SECRETARY OF TRANSPORTATION

Mr. Chairman and Members of the Committee, thank you for inviting me to testify today on the Administration's proposed highway, transit, and user fee legislation. The President today transmitted a bill to the Congress to establish long term programs to address this nation's highway and transit needs and to increase highway user fees so that we can begin immediately to correct the serious deterioration of our highway and transit capital infrastructure.

Need.—As you know, major portions of our highway and transit systems are deteriorating rapidly. These systems are essential to efficiently move people and freight and to a healthy national economy. Investments by all levels of government are falling well short of the amount necessary to complete the Intersate System and to keep our nation's highway system, including its bridges, from continuing to deteriorate. To give you some perspective on what we are facing—

Over 4,000 miles of the Interstate System, nearly 10 percent of the total, requires resurfacing or replacement now or in the near future.

Forty percent of our nation's bridges are more than 40 years old, and the design life of most bridges is about 50 years.

Urban rail and bus transit capital investment needs could total alomost $50 billion over the next decade to maintain our existing systems. These mass transit systems, which move hundreds of thousands of people daily, complement and are interdependent with our highways in efficiently and economically moving people and goods in urban areas.

The Administration's proposal adequately funds the Federal share of the investment needed to halt this deterioration. The proposal relies on the user fee principle—those who generate the need for highways and benefits from them should bear the cost of both building and preserving the Nation's transportation system.

Cost allocation.—Present Federal highway user taxes need revision both because their overall yield is not keeping pace with program needs and because they do not distribute the tax burden equitably among the vehicle groups.

The total annual yield from present highway user fees has fallen in recent years from a 1979 peak of $7.2 billion to $6.3 billion in 1981 and projected revenue yields are expected to rise only slightly over the coming decade. With our proposed user fee increase, the annual yield will increase by approximately $5.5 billion per year, allowing us to address rather than defer our pressing needs.

The structure as well as the level of the user fees needs to be changed to bring about equity. The current structure established in 1961, was designed to address equitable cost allocation at a time when the highway program was focused on major needs for new construction. Now, however, the major focus of the program must be on rehabilitation and replacement of highway facilities.

Using that perspective, the Highway Cost Allocation Study, which I submitted to Congress last May, and which was prepared using assumptions recommended by CBO, found that heavy combination trucks are underpaying by an average of 40 percent while single trucks (not including pickups or vans) are paying on the average nearly double their share. Because the current user fee structure has many fees that do not vary directly with vehicle weight, low-weight trucks are overpaying substantially compared to vehicles with high registered weight and annul mileage. Our highway user fee proposal is aimed at rectifying these failings.

We have worked jointly with the Department of the Treasury in the development of a user fee proposal that is far more equitable than the current user fee structure, and is administratively feasible. To facilitate the administration of the user fee structure, our proposal greatly reduces the number of vehicles subject to the current set of fees by eliminating the current fees on lubricating oil and tire tubes, by increasing the gross weight level at which the truck parts and new truck excises apply, by eliminating the tire tax from light tires, and by raising the gross vehicle weight level at which the annual heavy vehicle use fee applies. The recommended annual heavy vehicle use fee is more equitable than the current version since the rate is graduated as a function of registered weight.

In addition, very low-mileage heavy vehicles would not be penalized as this proposal calls for exempting vehicles traveling less than 2,500 miles on Federal-aid highways from the user fee.

The user fee proposal would increase the annual fees for the typical automobile driver by approximately $30 a year. We feel that the benefits of an improved highway infrastructure will clearly outweigh the additional fees imposed on the American consumer. As the President mentioned in his talk on Saturday, this increase amounts to the cost of a couple of shock absorbers.

Truck size and weight.—While the user fee structure does shift the relative burden from the lighter trucks to the heavier trucks, we believe that the associated benefits to the trucking industry from both an improved highway network and the productivity gains from truck size and weight reform are far greater than the increased user fee burden.

Our truck size and weight proposal would eliminate the existing barrier states and retain the existing bridge formula with a 80,000 pound maximum weight cap. In addition, no state would be allowed to establish a length limit of less than 48 feet for trailers operating in a single-bottom combination or 28 feet for trailers operating in double-bottom combination on the Interstate System. States would also be prohibited from establishing overall length limits. All States would be required to allow the operation of doubles on the Interstate System. Finally, States would be required to establish a mandatory width of 102 inches for vehicles operating on Interstate System.

We have consistently maintained that the Administration's cost allocation proposal would be accompanied by increased productivity benefits for the trucking industry. Changes to Federal rules governing truck size and weight limits have always been viewed as inseparable from a fair and equitable highway user charge structure. The Department of Transportation's study of the costs and benefits of uniform truck size and weight limits, which I sent to the Congress last year, assumed that the additional costs imposed by longer, heavier or wider trucks would be captured in a fair user fee system. Overall, the trucking industry as a whole should benefit by our size and weight recommendations by almost twice as much as they will pay in additional user fees. Of course, the trucking industry is diverse, and some truckers will benefit more and some less. But on the whole we believe that under our proposal the industry stands to capture a substantial net benefit. Because the proposed user charge structure and size and weight uniformity would benefit the nation and the trucking industry in a way that is fair and equitable to all users, these two provisions of the legislation should be considered as being highly dependent on one another.

Our studies have also shown that these productivity gains will not affect, in any significant way, the existing competitive balance in today's intercity freight transportation. The truck size and weight study found that under any of the options examined, the diversion of freight from the railroads to trucking will be very minor, less than 2 percent in all cases. We consider this an acceptable level, not likely to cause any financial hardship to the railroad industry.

TITLE I—HIGHWAYS

Other features of the administration's bill.—The Highway title of the bill continues the direction established by the Federal-Aid Highway Act of 1981. Federal involvement is focused on programs of national interest and priority. Completion of the Interstate system and its rehabilitation and preservation remain our highest Federal priority. The Administration's bill features Interstate authorizations through fiscal year 1991 at increased levels and revises the criteria for distribution of Interstate discretionary funds. These changes will further the expeditious completion of the Interstate Systems. Discretionary funds will be allocated on a priority basis to projects that will help complete segments not open to traffic and to projects of unusually high cost relative to a State's apportionment.

The importance of rehabilitation and preservation are reflected by increased levels of Interstate 4R authorizations.

Authorizations for the non-Interstate programs are provided through fiscal year 1988. Programs of state and local interest, such as the secondary and urban system programs, will be funded at their fiscal year 1982 levels. Although this bill does not contain a Federalism turnback, the Administration is consulting with the Governors, affected state and local officials, and the Congress on a bill which will implement the appropriate turnback of highway programs and accompanying revenues. We expect that revenues totalling $2.2 billion and the Federal-Aid programs relating to urban, secondary, non-primary bridges and safety construction would be turned back. This bill treats these programs in a manner that will allow them to be easily incorporated into Federalism legislation.

We also propose to repeal several categorical programs that have served their original purposes or that serve State and local interests and warrant little national attention. States will be able to make their own determinations as to the priority of the activities currently funded by these programs and will be able to use regular primary, secondary, or urban system funds to fund these programs.

TITLE II—TRANSIT

The transit portion of our legislation proposal reflects our continued belief that public transportation is a vital and integral part of our urban surface transportation system. To address transit needs we are proposing that the equivalent of a penny of the five cent user fee increase be available for capital improvements to mass transit through fiscal year 1988. Approximately $1.1 billion per year would be available for a capital infrastructure program to replace or modernize buses and urban rail cars that are ready for retirement, as well as to modernize fixed rail track and other transit facilities. Funds under the program would be distributed on the basis of an administrative formula based upon factors such as size, age, condition and other appropriate measures of infrastructure needs of mass transit systems. The infrastructure program would adopt a greatly simplified self-certification and grant delivery process.

Funds under the infrastructure program would be made available to designated recipients in urbanized areas of 200,000 or more, and to the Governor in the case of areas under 200,000. In addition, the Governor or designated recipient could request that the transit infrastructure funds be used instead for highway needs in their respective areas, provided certain requirements are met.

In addition to the capital infrastructure program, our proposal includes a capital formula program which would be delivered to urbanized areas on the basis of a revenue-matching formula. Like the capital infrastrucutre program, the capital formula program would adopt a greatly simplified self-certification and grant delivery process. We believe that this program will provide enhanced predictability in funding and greater flexibility for State and local governments. The proposal also includes a parallel capital grant program for non-urbanized areas. To meet special capital needs, the proposal continues the capital discretionary grant program at reduced authorization levels.

As you know, this Administration remains committed to the phase-out of operating assistance and proposes to terminate Federal operating assistance by the end of fiscal year 1984. Federal operating assistance has encouraged uneconomical expansion of transit services, distorted local collective bargaining processes and invited Federal intrusion into local service and subsidy issues.

This legislative package will establish a sound financial framework for our nation's transit systems to provide necessary transportation services in cities throughout the country.

TITLE III—REVENUE TITLE

The revenue title of the bill features the tax adjustments and cost allocation features I discussed earlier. The bill provides that current tax receipts will accrue to the Highway Trust Fund through April 1, 1990 and the time during which expenditures may be made from the Highway Trust Fund is extended through October 1, 1991. The program features of this bill will become effective on January 1, 1983, but the actual increase in user taxes, with the exception of the heavy vehicle use tax, will become effective on April 1, 1983. This rapid program start will allow States to begin projects very quickly and, since the highway program reimburses states for expenses they have incurred, the money will be in the Trust Fund when the bills become due.

Finally, the revenue title sunsets most current tax exemptions in 1990. The existing major exemptions for state and local vehicle and gasohol will apply to the user fee increase. Private buses and taxicabs that currently receive a four cent exemption, would continue to receive a 4 cent exemption, but would be subject to the additional taxes.

SUMMARY

The program restructuring and authorization levels proposed in this bill represent a strong Federal commitment to an effective national transportation system. The new Federal focus on national interest programs accompanied by greater flexibility for the States will ensure fulfillment of the nation's transportation needs. I hope the Congress will act quickly, during this lame duck session, to pass this legislation. With it, we will be able to move quickly to address our pressing needs, and to do so on sound and fair user fee basis.

Thank you, I would now be happy to answer any questions you may have.

Chairman ROSTENKOWSKI. Mr. Conable is recognized.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Secretary, I have a general question that concerns me somewhat about this. My impression is that a number of our States have serious fiscal problems. They will be required, under the normal practice in the highway trust fund, to meet with matching payments the apportionments from the trust fund for the Interstate and primary highway system in their State. I would like to have from you a quick overview of the difficulties that may arise. We have always called things of this sort energy taxes. Now we are calling them a jobs bill. We are calling this one a jobs bill. It, obviously, is not going to be a jobs bill if the contracts don't get let because of the failure of matching payments. I am aware of at least a couple of States where there's serious doubt this money can be used. I wonder if you can give us some assurance as to the timetable that you see for the use of additional money authorized by an increased highway tax of some sort—whatever, the committee and the Congress and the President decided ultimately—give us a timetable to show how that money will be used so we can see that it is meeting the expectation the public has of such a bill.

Secretary LEWIS. First of all, in terms of timing, we have a backlog of about $3 to $5 billion that we can contract immediately in highway projects. They are the projects for which the environmental impact statements are completed, the rights of way completed, and the engineering completed. We are in a position to be well underway within 90 days. If this bill were passed by the 15th of December, we think we can complete the intent of this bill within 90 days. Although we are not proposing this as a jobs bill; the proposal will provide jobs more quickly than any other proposal that could be considered by Congress except just make-work kinds of programs.

Second, we have been meeting with the Governors' Association on the matching funds problem. Our estimation is that there are 13 States with some problem; the Governors' Association has indicated six states that have problems. We are now working with the Treasury and the Office of Management and Budget and recognize that we don't want to put money out to do a project and not be able to complete it because of lack of funds. There's a precedent set by Congress in 1975 which would permit states to defer matching funds for a 2-year period. Essentially what it does, is dollar average for 2 years. The first year when matching funds are required, you would not have to put up matching funds. In other words, the Federal Government could put up 100 percent. In the second year, when states have had time to rectify the situation in terms of their own user fees or gasoline taxes they would make up the difference.

We do not want to impose a hardship by of the addition of $4.4 billion into a highway program and $1.1 billion into the mass transportation portion that States cannot take advantage of it.

On the other hand, there should be some State commitment to highway programs, there should be some participation by the States, and we think there should continue to be matching funds.

The average matching funds on this will be about 17 percent, I believe.

Mr. Conable. In other words, most of the money will go into the Interstate Highway System, is that correct?

Secretary Lewis. Most of the money will go into repairs and maintenance, some for the completion of the Interstate System. I believe we submitted in the packet to you the breakdown of the program and how it would be spent. If it has not been submitted, I will submit that right now.

Mr. Conable. Is that package before us now?

Secretary Lewis. It has been sent to all offices of members on this committee. I am sure I have a copy here to distribute.

Mr. Conable. Mr. Secretary, are most of these matching funds raised by the States by bond issues of one sort or another?

Secretary Lewis. It depends. It varies from State to State. In many States it is the same tax that we are imposing which is a tax on gasoline. That will probably be the prominent source of funds for matching.

Mr. Conable. Can you tell us what the current state of gasoline taxes in the States may be? I understand a number of States have had a very recent increase in gasoline taxes and may have to do it again because of this expansion of the program.

Secretary Lewis. That is true, but the other side of it, Mr. Conable, I think we have to accept the fact there has been such tremendous deterioration of our Interstate System, our primaries—we have $60 billion in backlog bridge needs—that whether it is a State problem, or a Federal problem, if we don't address this now, I can assure you, commerce, in terms of both the trucking industry and the private citizen, is just simply not going to move in this country. It is a problem that has to be addressed.

I think we should also point out the gasoline tax, which was approved by this committee in 1959, is 23 years old. The 4 cents imposed 23 years ago is now worth eight-tenths of a cent. The cost of construction during that time period has gone up 300 percent. So we are either going to sit here and watch our transportation system, which is potentially the finest in the world, fall down around our ears or we have to have funds forthcoming from Congress with matching funds from States.

Mr. Conable. One last question, Mr. Secretary. Have you considered converting the gasoline tax into a percentage of the price of gasoline rather than leaving it the way it is? Had that been the case, this would not be a problem at this point. The relative cost and revenue would have to be adjusted to some extent.

Secretary Lewis. There is no question we wouldn't have the problem had it been a percentage tax base. Gasoline has gone from 31 cents to $1.31. As you are aware, we have been working on this program in the Department of Transportation for about 20 months. In our conversations with a number of people on this committee, and I believe even your office, it was felt that the Congress would prefer to have a flat tax where they could control the revenues going into the trust fund than to have a percentage where they did not have any conception what the escalation or deescalation could be. For that reason, we decided to stay with the flat tax.

Chairman Rostenkowski. Will the gentleman yield?

Mr. Conable. Yes. I yield to the gentleman.

Chairman **Rostenkowski**. Mr. Secretary, I know politics are behind us. However, it has come to my attention that some Governors are already saying that if this tax is enacted they will reduce the State gasoline tax in their States at some future time. If that becomes the case, would you reduce your allocation to those States because of the benefits they will derive from this legislation?

Secretary **Lewis**. Here is the problem we have. This really gets to the whole issue of donor, donee, who collects the taxes, where is the money spent. As long as we feel we have a commitment—I hope we would to an Interstate System, a primary system that moves the commerce/interstate around this country. There will also be donor and donee States.

I used this example yesterday, in Montana. If they collected all the money they can collect on gas taxes and kept the money there and they did not receive transfers from other States, they would only have enough money to buy the signs on their Interstate System. In other words, no money for repairs. The same is true for a number of other States. So it is our attitude we are going to have to be in a position of always having some discrepancy.

Obviously, we are trying to keep it as low as possible. We also have the problem that the interstate, for example, in Indiana and Tennessee was completed many years ago. In Florida, it has not been. Florida now is getting a disproportional amount of money to complete its interstate, but the other side is we are going to spend more money in the Northeast and Midwest for repairs because that is where the interstate is in the worse shape.

The point I am making is if you tie our hands on the donor/donee concept you are not going to see an adequate national system. We are satisfied, however, to take the $2.2 billion in the present programs for urban and rural and return those to the States. We have not made this part of this bill because we thought it would complicated it in terms of New Federalism. We will be coming back to the Congress recommending those programs go back to the States with the money and the States handling those problems on their own. We are not going to try to give them the problems without the funding levels.

Chairman **Rostenkowski**. Mr. Secretary, would you please describe for the benefit of the committee the methodology used in the cost allocation study in contrast to the so-called incremental approach used in past studies? There has been some argument that the approach used in the current study understates the cost responsibility of trucks at lower weights that have fewer axles. I would like you to respond to that concern.

Secretary **Lewis**. First of all, as you know, the study which we have came directly out of a recommendation of the Congress in terms of making a cost-allocation appraisal. We have done that and submitted it to the Congress. I want to make it clear that we are not out to create a hardship for heavy trucks. But we do feel, and the study we have incorporated indicates, that heavy trucks are simply not paying their fair share.

As far as the technical aspects of the study itself, would you care to comment on that, Ray?

Mr. **Barnhart**. We did change the methodology on the basis of the consumption approach, the actual cost of not only the construction, but the maintenance, and the reconstruction of the highways; and our study has been recognized in all aspects of the construction business and the highway industry other than from the trucking industry itself. It has received great credibility. That study indicated that the passenger car was paying its way, using it as a norm, as did the pickup trucks, light trucks were overpaying their equitable share; and the heavy trucks were grossly underpaying their share.

We have tried to come in with a happy balance, a medium balance to get equity in those charges applied to each class of vehicle. We will be happy to supply the technical information on it. We are satisfied that it is quite an objective approach and has been recognized as such.

Chairman ROSTENKOWSKI. Mr. Commissioner, were there two studies made? I was told yesterday that there were two studies made and the Transportation Department chose to present this study as opposed to another study that was made. Is that true?

Mr. BARNHART. Only the major new study was made. We had changed the methodology at the request of the CBO, by the way, who also recommended the very approach that we have used on this last study.

Secretary LEWIS. I think we also should be aware in that this is not being proposed as a hardship on the trucking industry. The benefits they will receive from the elimination of the barrier States, the modification in doubles, size, weights, widths to 102 inches, will give them a return of more than 2 to 1.

In other words, they will double their revenues in terms of productivity and this will benefit the entire country.

The item of just barrier States alone is worth about $650 million to this economy. That plus other benefits from length and width is three times the amount we expect to get from the trucking industry. They are getting significant benefits here. We think if the highways are really their factory, and we are paying for it, they should pay for their fair share.

Chairman ROSTENKOWSKI. Mr. Gibbons will inquire.

Mr. GIBBONS. Thank you, Mr. Chairman.

Mr. Secretary, I like the way you answer questions. They are very direct and to the point. I haven't read the bill, so let me ask a lot of questions that may not be germane to this bill.

Is there any "buy American" provision in this bill?

Secretary LEWIS. There is not a buy American provision in the bill, but it does not repeal the previous buy American provision in the present bill. The point I am making is the buy American provisions will prevail under this program as it did under our previous programs. There has been no modification in that. We didn't put it in because we didn't think it had to be part of the bill because we already have a law that requires this for buy American on a—on various projects.

Mr. GIBBONS. Is there a domestic content legislation in this bill?

Secretary LEWIS. Just to the extent it was in our previous law. In other words, we did not address that in this bill because it has already been covered.

Mr. GIBBONS. Do you support those Buy American and domestic content provisions of the Public Works Committee bill?

Secretary LEWIS. Yes, I do.

Mr. GIBBONS. You do?

Secretary LEWIS. Yes, I do. The administration has enforced the Buy American provisions.

Mr. GIBBONS. I am talking about the domestic content provision of the administration.

Secretary LEWIS. Excuse me. I thought you were talking about the material that is presently in the bills that we are operating under.

Mr. GIBBONS. No, in the public works bill over there.

Secretary LEWIS. We do not support that and we do not support it because we think it will be ultimately detrimental to the best interests of the manufacturers.

Mr. GIBBONS. Let me ask you about——

Secretary LEWIS. Excuse me for misunderstanding the question.

Mr. GIBBONS. Your misunderstanding emphasizes the point. The tread rubber 400 percent increase, what is the justficiation for that?

Secretary LEWIS. The rubber industry is now paying about $716 million; under our proposal, they will pay $293 million. The cost of tires, tubes, and tread rubber will go down 59 percent. The reason we shifted it to tread rubber and left it there is that tread rubber is fundamentally used by the heavy truck industry. In terms of trying to shift the burden from the lighter trucks to the heavier trucks and away from the automobiles and the average consumer, we felt this was equitable. The total dollars raised are about $16 million on tread rubber. We think we will have no impact on the sale of retreaded tires. The balance of the industry, and the little guy driving his pickup truck or automobile, will not be paying the tax on his tires and tubes.

Mr. GIBBONS. I fight no battle for anybody on this, but the tread rubber people have already started contacting us and saying they are going out of business with the 400-percent tax increase on tread rubber.

Secretary LEWIS. Actually, it is less than 5 percent of the cost of retreads. I think the problem we have in this bill, is that whoever is going to pay a little bit more, objects to it, whether it is equitable or not. The best thing to do is say you are going out of business. We think it will have no impact on the tread rubber dealers and will produce some revenues.

Mr. GIBBONS. What kind of weight, length, height, restrictions have you got in this bill? What changes from the present law?

Secretary LEWIS. Actually, we go from 96 to 102 inches in width. We make mandatory the previous permissive maximum weight limits of 80,000 pounds which essentially eliminates the barrier States. We require States to allow double trailer/combination trucks on any segment of the Interstate System, just the Interstate System. We set a minimum trailer length of 28 feet for trailers for doubles and 48 feet for trailers for single trailer combinations.

Mr. GIBBONS. What does that mean as far as length is concerned? How much more are you lengthening the permissible?

Secretary LEWIS. There is currently no Federal length limit.

Mr. GIBBONS. Is this a maximum or are the States going to be able to go greater than that?

Secretary LEWIS. This is a minimum. The States can make the determination if they want to go higher than that.

Mr. GIBBONS. On weight?

Secretary LEWIS. No. Not on weight. Excuse me. That is a limitation that is staying firm.

Mr. GIBBONS. Only on length?

Secretary LEWIS. Only on length. Is that correct?

Mr. BARNHART. Yes. We specify only the length of the trailer so that we can help to avoid the problem of compressed cabover tractors. We prohibit the States from establishing overall length limits on combinations.

Mr. GIBBONS. In weight limitations, is this a maximum limitation? Is it mandatory?

Mr. BARNHART. It is mandatory 80,000.

Mr. GIBBONS. Gross vehicle weight limitation?

Mr. BARNHART. That is right.

Mr. GIBBONS. There will be no vehicle weighing heavier than 80,000 pounds?

Mr. BARNHART. Yes, there will be, sir, because we do not touch the grandfather clauses.

Mr. GIBBONS. That is a joke. If you don't touch the grandfather clause, you haven't done anything. We have been—these are great-great-great-grandchildren we are grandfathering now. That's no answer at all. That's no answer at all. You haven't done anything as far as weight is concerned. We will still have all kinds of monsters roaming around the highways under grandfather provisions. They are not really grandfathers, they are great-great-great-grandchildren. You are just making grandfathers out of them that's all you are doing.

Mr. BARNHART. What we have done is eliminated the barrier states.

Mr. GIBBONS. Yes. That is only 80,000. That means they must have from 73,000——

Mr. BARNHART. We have retained the axle load limitation, the bridge formula, so that we do minimize damage to the highways because we are concerned about overloaded vehicles.

Mr. GIBBONS. You are not very concerned, not with that grandfather provision in there. That is a joke. You know it is a joke.

Secretary LEWIS. It presently is a major concern.

Mr. GIBBONS. Anybody for $5 can get a waiver and load them up to anything they want to.

How about enforcement and speed limitations?

Secretary LEWIS. The grandfather clauses are provisions that had been approved by this Congress. We are presently living under those provisions.

What we were trying to do is rectify the situation as we see it and increase the productivity of trucks on the highway, and specifically eliminate the barrier States.

Mr. GIBBONS. All you are going to do is raise the tax by 100 percent and chew up the highways just as fast as you have, because you really haven't done anything to cut down the excessive wear of excessively heavy trucks.

Mr. BARNHART. Our engineering data indicates that 80,000 pounds properly distributed does not seriously affect the highways.

Mr. GIBBONS. I am not arguing about 80,000 pounds. I am arguing about the ones over 80,000 pounds.

Mr. BARNHART. They would not seriously damage the highways if the load is properly distributed according to the bridge formula and the axle load limitations.

Mr. GIBBONS. You must understand there is a lot of difference of opinion on that subject.

Mr. BARNHART. Yes, sir.

Mr. GIBBONS. You represent a very slim minority of the formed opinion.

Secretary LEWIS. Mr. Gibbons, one comment I might make, we have tried in this legislation to modify as little as we can previous legislation already passed by the Congress.

Mr. GIBBONS. You are not doing anything but increasing the tax. You are going to wear out the bridges and highways just as fast or faster. If you don't put 80 as a maximum and stick to it and enforce it, anybody can get the waivers and they are going to tear up the bridges and roads just as fast.

You may have a permanent public works program here that will build jobs because we are going to be trying to repair them as fast as they can wear them out.

Secretary LEWIS. The indications are, from our study, that what you are saying is not correct. We will have adequate funds coming in from trucks to keep the highways repaired and this is a reasonable solution.

Mr. GIBBONS. I disagree with you, violently.

Chairman ROSTENKOWSKI. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

Secretary Lewis, how long do you anticipate this program with the new taxes, lasting? Permanently?

Secretary LEWIS. We are talking about a 6-year bill with an extension of the trust fund through 1991, and that would—really we are talking about a tax that would last, what, 2 years after the——

Mr. DUNCAN. After the passage of the bill, when will the new apportionment go out to the State governments?

Secretary LEWIS. We feel we can put out between $3 and $5 billion in contracts within 90 days. Apportionments will be made immediately.

Mr. DUNCAN. Can you give us an approximate percentage of increase that the States will receive?

Secretary LEWIS. We can give that to you. Again in answer to the same question raised by Mr. Gibbons, we will try to take it State by State and keep the apportionments approximately the same as previously. We have not changed any of those formulas for the States.

The point I am making is we have not changed any formulas for the highway programs. This is the way it was done in the past.

Mr. DUNCAN. Do I understand you to infer that some States will receive less than others on a per capita basis? You don't want a formula like that?

Secretary LEWIS. Yes, there is a variance.

Mr. DUNCAN. I think you mentioned that my State of Tennessee probably will receive less. I don't think you have driven on our highways. You said the interstate is completed, and doesn't need repair?

Secretary LEWIS. I was using that as a generalization of the problems as to why we need donor and donee States. Actually we have 14 donor States and 36 obviously that are not, that are donee States. Of the 14, 3 get 99 percent of their money back.

Essentially we have 11 donor States.

Mr. DUNCAN. What is a donor State?

Secretary LEWIS. That is one who raises more tax in their State than they receive back. In other words, a State would raise $1, might get back 93 cents, or 84 cents where another State might raise its $1 and get back $2.42.

Mr. DUNCAN. Is there some reason you haven't submitted that to the Members? I am at a loss on this whole program.

Secretary LEWIS. I will submit that.

Mr. DUNCAN. OK.

Secretary LEWIS. I have it on a chart. If someone would like to make a copy, we will distribute that right now.

Mr. DUNCAN. Are you aware of the fact that in some States the per capita use of gasoline is higher—for example, in the smaller States, where some are dependent 100 percent upon their automobiles, and they use more gasoline per capita than they would in some of the larger cities and States?

Secretary LEWIS. Yes. We do realize that. In those States that you are talking about, they are largely the donee States. They are recipients of money from the more heavily populated States.

So to the extent they are using more gasoline because the distances are longer to get from point A to B, they are also receiving the money back.

The example I used, Montana, for example, gets $2.68 back for every $1 they raise.

Mr. DUNCAN. You mean from the highway trust fund?

Secretary LEWIS. Yes, sir.

Mr. DUNCAN. I wish you would have someone double-check. I have figures that show they do not from the gasoline tax.

Secretary LEWIS. We have—we will distribute this right now.

This is public information and will be provided to you as soon as we get copies made.

Mr. DUNCAN. Mr. Chairman, I would like to have unanimous consent to propound questions in writing to the Secretary and any other witnesses.

Chairman ROSTENKOWSKI. Without objection, so ordered.

Mr. Pickle will inquire.

Mr. PICKLE. Mr. Secretary, it's good to see my fellow Texan, Mr. Barnhart, here this morning.

Like most of the members, I am now seeing the bill for the first time. We are dealing in the darkness, because we don't know what is in this bill, so we may have other questions for you later as well.

I do have two or three questions I want to ask. First, under the mass transit section of the administration's proposal, would revenue be available for new construction? I ask specifically about the city of Houston, Tex. Will cities that do not presently have a system, be eligible for funds under the bill?

Secretary LEWIS. Under the bill, there would be no new starts. This was raised by Senator Bentsen yesterday. I can fully appreciate the problems with Houston. There is no reason for you to pay the money, get a block grant and not be able to spend it because you have no existing system.

We are now having that reviewed by both the Treasury and Office of Management and Budget. I think your position is totally reasonable and if we really believe in New Federalism and believe in block grants in this administration, we should let the local people determine how that is to be spent.

That is the position I am taking. I am urging the administration to follow that position. We will get back to you very promptly on that, hopefully today.

Mr. PICKLE. I appreciate your attitude on that. My concern is that a city like Houston be eligible. This is without respect to whether or not I believe in New Federalism.

Secretary LEWIS. I think——

Mr. PICKLE. We will have further questions for you. The study our staff has given to us, shows Texas receiving 76 cents on the dollar for every dollar contributed. That is an imbalance. If that is a fact, we are going to have to seek some way to make a correction.

The second question I have is this: Under your bill, the gasoline tax is raised some 5 cents per gallon. I assume that this is the primary objective you are trying to achieve. There is general consensus, I think, among the Members in the Congress that we probably have reached the point where we need to raise the tax. With this, we could help repair bridges, tracks, and highways.

Are there other provisions? You have some that get into the excise taxes—on tires, trucks, and parts.

I am going to assume your primary goal is to raise money through the gasoline tax and not from all these other taxes. You may end up having to choose a clean bill, the gasoline tax, and forgo all these other things.

You have never recommended these changes before. You tell me now you have a cost allocation study and you may say now is the time to act upon it. I am making an observation to you that we are hearing from all sides about likes and dislikes. This reallocation issue is controversial and the competing interest should be heard.

We may have to come back to the main point or focus of your bill. Do you want to comment on that?

Secretary LEWIS. What we are trying to do is a reallocation of those taxes based on the study mandated by the Congress, trying to put the imposition of the tax on the heavier trucks.

I think I should point out that if you want to eliminate cost allocation essentially what you will do is have the average public paying for the roads that are deteriorating because of heavy trucks. The trucking industry pays 26 percent of the cost of highway construction. If you drop out the modification of the excise tax and the size and weight at the same time, which I think you would have to do, they would drop down to 21 percent.

Our feeling is they should be paying between 30 and 33 percent. Our recommendation is they pay 33 percent.

Mr. PICKLE. I am saying to you if there is no additional revenue in the reallocation, then it might be considered later. In this short period of time, reallocation action may be very controversial.

Secretary **Lewis**. The only thing that does, if you do that you have to understand you are dropping the trucking industry's share of this from 25 to 21 percent.

Mr. **Pickle**. I am not singling out any one sector. That may be a problem.

I have another problem. I proposed a change in the excise tax collection with respect to trucks. I would say that the truck Federal excise tax should be collected at the point of the first retail sales.

Now the tax is paid at the wholesale level and, in effect, the truck dealer must finance it. I am proposing a change which has been sponsored by several members of the committee. How do you feel about changing the point of collection? It doesn't raise or take money from the Treasury.

Secretary **Lewis**. That issue specifically should be addressed by John Chapoton, your next witness from the Treasury Department. They have the jurisdiction on that, not the Department of Transportation.

Mr. **Pickle**. Mr. Barnhart, you are in the transportation section. From your standpoint, do you have a feeling about the point of collection? I am not trying to change any other aspect of the tax except the point of collection.

Mr. **Barnhart**. No; the problem is we do not have jurisdiction over it. It is strictly a Treasury matter, not our matter. If you are asking if we have an objection, we do not.

Secretary **Lewis**. The answer is no, if Treasury agrees.

Mr. **Barnhart**. Like the rubber tire.

Chairman **Rostenkowski**. Mr. Jacobs will inquire.

Mr. **Jacobs**. Mr. Secretary, who would you say is in charge of the administration at the present time?

Secretary **Lewis**. Excuse me?

Mr. **Jacobs**. Who would you say is in charge of this administration at the present time?

Secretary **Lewis**. You mean the administration of the Government or my Department.

Mr. **Jacobs**. The executive department of the U.S. Government?

Secretary **Lewis**. I would say I am.

Mr. **Jacobs**. You are in charge——

Secretary **Lewis**. What? I still don't understand your question.

Mr. **Jacobs**. My question is, who is in charge of this administration?

Secretary **Lewis**. Obviously the President of the United States. What is your point?

Mr. **Jacobs**. It is not entirely obvious to me, because the President of the United States said in order for the administration to reverse its opposition to this increase, there would be a coup d'etat.

I wonder if there had been one?

Secretary **Lewis**. I think that is a gross misrepresentation of the statement of the President of the United States. He indicated that he was not going to sponsor taxes, and when he said that he was not talking about a user fee. We have consistently in this administration supported user fees. We just passed a bill, passed this House of Congress, for airport development and for airspace programs. So this is a user fee.

Yes; it is a tax, but it is a user fee. It is justified in terms of needs of the highway. When this thing was turned down last August by the President, and I presented it in April, he said I think this is a proper way; the users should be paying for the benefits they are receiving on highways and bridges.

He said furthermore, I recognize the need. I would like to address it the first 2 weeks in November when we look at the next budget cycle. That is exactly what we did.

Mr. **Jacobs**. Would it be fair to say back when it was a gasoline tax he opposed it, but now it is a users' fee he is for it?

Secretary **Lewis**. I would not say that at all.

Mr. **Jacobs**. Or what this country needs is a good 5-cent jobs program? Would that be unfair, too?

Secretary **Lewis**. I would say that would be unfair, too.

Mr. **Jacobs**. Is there a coincidence that the stress metal or the steel reenforcements in the concrete in the Interstate Highway System began to really give way about the time the election results were in and unemployment was high? Or do you think it was just destined to become critical about this time, the repair needs?

Secretary **Lewis**. I had been pushing it for 20 months. The timing, I indicated to you, was the first 2 weeks in November. I anticipated addressing this regardless of any election returns.

Mr. **Jacobs**. I am talking about the administration. You wouldn't be for it if the President wasn't; would you?

Secretary **Lewis**. I certainly would not be.

Mr. **Jacobs**. The only other question I had, Mr. Secretary, is how many States under your plan will not be able to make the match to utilize these funds by any formula that the bill would indicate?

Secretary **Lewis**. I think it really depends on whether we make the modification. I indicated earlier that I am working with Governor Orr in the Governors' Association. Actually we are talking about six States we are aware of that have a problem with matching funds. Conceivably there could be as many as 13.

We also recognize that this is a modification we have to make in the bill because we don't plan to put money out there and not have States be able to spend it for the intended purpose.

Mr. **Jacobs**. Will we have those modification proposals shortly?

Secretary **Lewis**. Yes; we are working on them. We started last night as a result of these two questions being raised in the Senate hearing and should have information on that hopefully before the day is out.

Mr. **Jacobs**. Thank you, sir. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Archer will inquire.

Mr. **Archer**. Thank you, Mr. Chairman.

Mr. Secretary, I support the concept of a highway user fee. I think it has worked well for this country. However, I think the distribution formulas have been inequitable. I hope we can correct that.

I must say I do not fully understand your proposal because I just got it yesterday. I have enjoyed listening to some of the questions and answers today. I am disturbed about what appears to be an apparent lack of regard for rapidly growing regions of the country. Mr. Pickle has touched on it a little bit.

Of course, I am a Texan, too. Texas is a fast-growing area. My city of Houston is a fast-growing area. Quite frankly, if you are going to design a program to get the votes of the Northeast by giving them a bigger percentage of the money out of the fund than they put in, then you have to also accept the responsibility for losing the votes of the fast-growing areas like the Southwest. Frankly, we have been kicked around for too long under these distribution formulas where we get back too low a percentage compared to what we put in.

This has been going on year after year after year. I had hoped that that would be corrected here. I appreciate your statement that you personally believe that this should be taken care of. I have a couple of specific questions to ask you. I would like to get to that.

How much of the revenue raised by this tax increase represents new revenue available, as opposed to a replacement, of general revenue previously proposed?

Secretary LEWIS. It is all new revenue. The $5.5 billion will be new revenue for new programs and none of it will be as a diversion from previous revenues raised.

Mr. ARCHER. Haven't there been proposals to spend money on mass transit out of general revenues? Isn't some of this going to replace those previous proposals?

Secretary LEWIS. We still have the present budget for operating and capital expenditures in mass transportation. They are in place. This is in addition to those. If it is recommended to the contrary that we should cut down on those revenues because of this money being raised with the exception of operating subsidies, which I think my position is clear on, we would be in opposition to that. This is new money.

Mr. ARCHER. If this is a user fee, how do mass transit riders pay a portion of the tax?

Secretary LEWIS. Essentially about 55 percent of the revenue that is needed in our highway programs is raised in urban areas. Urban areas under this proposal will get back about 48 percent. So the urban areas are still subsidizing the rural roads.

Mr. ARCHER. That is not a direct answer to my question, Mr. Secretary.

Secretary LEWIS. Let me finish, if I may.

Furthermore, of the money going into these cities for mass transportation, we are giving the cities an option that if they would prefer not to spend it on mass transportation, they are permitted to spend it on urban roads; but we are trying to upgrade these transit systems which are in just terrible shape.

Also, in States, for example, like Idaho that do not have a city with more than 200,000 in population, the money would go to them and they could decide right at the State capitol whether they wanted it for mass transportation or farm-to-market roads. We are trying to provide maximum flexibility but at least permit moneys that previously were not permitted to be used for mass transit to be used.

Mr. ARCHER. Mr. Secretary, of the mass transit funds in this proposal, how much is available for new rail starts? I am not talking about your opinion. I am talking about the proposal.

Secretary LEWIS. As a proposal, none. That is why I said that had to be addressed.

Mr. ARCHER. I can tell you now there is no way I can support this proposal unless language is adopted in the proposal itself. I appreciate your good will, but that language has to be in the proposal if we are to have equity across this country.

As the proposal stands right now, it is available only for rehabilitation and replacement of existing equipment; is that not correct?

Secretary LEWIS. Mr. Teele said the money is available with my approval. Do you want to comment?

Mr. TEELE. The proposal actually before this committee as relates to mass transportation is $1.1 billion; but in the total context of the proposal that is before both this committee and the Surface Transportation Committee, there is an additional $1.8 billion for transit, for mass transit.

Of that, and particularly as it relates to Houston, some $51 million annually will be available for mass transportation and theoretically for new construction costs.

Mr. ARCHER. For new rail starts?

Mr. TEELE. For new rail starts. If I may, that, however, has the condition that it must be approved by the administration before it is expended in that narrow class of new rail starts.

Mr. ARCHER. I understand. Let me ask you right here in public before the witnesses in this room: How much money will Houston get for a new rail start out of this money that is proposed in this tax?

Mr. TEELE. In the $1.1 billion?

Mr. ARCHER. This total program? How much money will be made available to Houston for new rail starts?

Mr. TEELE. The decision as to how they use the money is a local decision and would not be proper for me as an official to suggest how they should use that money.

Mr. ARCHER. How much money will be sent to Houston out of the moneys in this bill that they will legally be permitted to use in a new rail start concept?

Mr. TEELE. Theoretically and under the administration's proposal, $50 million. However, they must receive the approval of this administration before doing so. That does not suggest that the $50 million should be used in that way. That is the decision——

Mr. ARCHER. That is what I am asking you. Can you commit to us at this point the administration will approve that?

Mr. TEELE. We would consider it at the time it is submitted, sir.

Mr. ARCHER. Well, you see, if it is not in the law, we have been through this before in competition with the other existing rail systems, and if we cannot get a commitment, then we cannot assume that money is going to be there.

Mr. TEELE. I think the point the Secretary is making, Mr. Archer, is the money is available for new rail starts but there is a condition they must receive the Secretary's concurrence as the current bill is written before they may proceed, should they choose to do so.

Secretary Lewis yesterday testified that he is willing to work with the various committees to address this particular need.

Mr. ARCHER. His specific testimony, which I will read to you from the Washington Post, if they reported it accurately—and if it is not accurate I would appreciate having it clarified—is that in his opinion, it should include the possibility of starting new rail systems.

Now that is not really very definitive.

Secretary LEWIS. Mr. Archer, to answer your question specifically, you are asking whether or not this administration will approve new rail starts under the block grant program we are proposing. In our previous legislation submitted, it was very clear our position was to be opposed to new rail starts. I think that is a position we should reconsider.

For that reason, you are getting the hedges you are today. We are now in the process of working this out internally within the administration. My position is I support what you are recommending. I also am involved with other people in the administration, including the Office of Management and Budget, the Treasury Department, and obviously the President.

I am in the process of trying to clarify that situation so we don't create a hardship for the Houstons. I cannot help but agree with you it is ridiculous for us to think we are going to have people in Texas and Houston put up money to complete and repair a system in Philadelphia.

I understand your question. We are in the process of trying to give you a definitive answer.

Mr. ARCHER. Mr. Secretary, I appreciate your view. Let me ask you also very specifically. Is 25 percent of the funds going out under the distribution formula still going to be on the 1970 census instead of the updated 1980 census?

Secretary LEWIS. It will be the 1980 census.

Mr. ARCHER. For 100 percent of the distribution of the funds?

Secretary LEWIS. For 100 percent of the highway funds. Where are we on mass transportation?

Mr. TEELE. For mass transportation for fiscal year 1983, it is going to be 25-75, consistent with the direction of the Appropriations Committees of the House and Senate.

Mr. ARCHER. You are proposing a new proposal here. In equity, should these funds not be distributed on the current population throughout the United States?

Mr. TEELE. In the new formula as it relates to section 9, the population index will be dropped and we will go to a measure that will be based upon the amount of contribution by local sources.

Secretary LEWIS. With the $1.1 billion, are you going to distribute mass transportation funds on the 1980 census or 1970 census?

Mr. TEELE. It will be a formula not based at all upon population. It will be distributed based upon the infrastructure age, condition, and amount of transportation of transit service.

Mr. ARCHER. We are already into 1983 now as far as fiscal year is concerned. Are the funds from this point forward going to be accumulated as a result of this proposal, going to be distributed without any relation to the 1970 census at all?

Mr. TEELE. As it relates to fiscal year 1982, the year we are under, we are currently——

Mr. Archer. We are not under fiscal year 1982, Mr. Teele. We are under fiscal year 1983 now.

Mr. Teele. As relates to the fiscal year 1983 budget year, we are currently under the decision made by the Appropriations Committee in the conference that requires the 75–25 split between the census as it relates to the total operating. That is the only funds we distribute based upon a formula.

Mr. Archer. That is right. That is right. That is right.

That is a matter of concern to me. I am curious why your proposal, which is a new proposal, which has to be considered by this Congress, does not rectify that inequity?

Mr. Teele. It does, Mr. Archer.

Mr. Archer. Thank you very much, Mr. Chairman.

Chairman Rostenkowski. Mr. Brodhead will inquire.

Mr. Brodhead. Thank you, Mr. Chairman.

Mr. Secretary, in attachment 1 to your testimony, you have a comparison of proposed and current user fee structures. My question is how much revenue do you estimate will be raised in each year from each one of these separate taxes? How much is the gasoline, the diesel, the tire, the tread rubber, and so on? How much revenue is each of those items going to raise per year?

Secretary Lewis. I have the attachment. It is a rather complicated attachment. Can I have copies made and distribute it to you?

I can run through it. On gasoline, it will go to 5 cents at the refinery which we assume will produce $5.5 billion. May I submit this in detail to you?

Mr. Brodhead. Well, yes.

Secretary Lewis. I have two breakdowns here. One by user-charge type and the other by comparing the present structure with the proposed structure.

Mr. Barnhart. That has not yet been submitted to the committee?

Secretary Lewis. I believe it has been submitted to the committee.

Mr. Brodhead. I don't have it.

Secretary Lewis. It has been submitted to the committee.

[The following was subsequently received:]

1985 REVENUE BY USER CHARGE TYPE

[Dollars in millions]

Tax type	1985 base case	Option	Percent change
Fuel	$4,453.0	$9,652.3	+117
Tires, tubes, and tread rubber	716.0	293.3	−59
Oil	80.0	0	−100
Parts	308.0	154.8	−50
Sales	1,362.0	1,285.6	−6
Use	287.0	1,116.3	+289
Total	7,206.0	12,502.3	+73

1985 REVENUE BY VEHICLE TYPE

[Dollars in millions]

Vehicle class	1985 base case	Option	Percent change	Ratio of revenue to cost
Autos and motorcycles	$2,930.9	$5,392.0	+84	0.99
Intercity buses	1.6	10.8	+575	.35
Other buses	0.0	5.8	+—	.00
Pickups/vans	1,401.0	2,390.9	+71	1.10
Other single units	1,063.5	1,034.8	−3	1.11
Combinations	1,809.0	3,668.0	+103	.96
Under 70,000 pounds	(669.7)	(1,041.7)	+56	1.14
70,000 to 75,000 pounds	(497.3)	(1,055.2)	+112	.98
Over 75,000 pounds	(642.0)	(1,571.1)	+145	.86
Total	7,206.0	12,502.3	+73	1.00

1985 REVENUE PER VEHICLE

[In millions of dollars]

Vehicle class	1985 base case	Option
Autos and motorcycles	$20	$45
Intercity buses	79	535
Other buses	0	12
Pickups/vans	40	69
Other single units	234	228
Combinations	1,310	2,670
Under 70,000 pounds	(990)	(1,540)
70,000 to 75,000 pounds	(1,550)	(3,300)
Over 75,000 pounds	(1,700)	(4,160)
Total	45	78

Source: DOT proposal, November 29, revised revenue forecasts.

Mr. **Brodhead.** I would appreciate if you would ask your staff to make a copy.

Mr. Secretary, the reason why I am seeking that information is that I think some parts of your proposal really are excellent. I think, in general, it is a good proposal. I intend to support it.

Some parts of it, however, make a lot more sense to me than others. I am thinking that from the standpoint of the kinds of incentives that we need to create, that we want to create, obviously if we make gasoline and diesel fuel relatively more expensive, we provide relatively greater incentives for people to operate their vehicles more efficiently.

I think that is good. I question, however, the wisdom of making tires relatively more expensive. It would seem to me that we ought not to be providing disincentives to people to replace their tires, that we ought to—Government ought not to artificially increase the cost of tires since tires obviously—one of the most important safety factors, I really question the wisdom of making tread rubber and tires substantially more expensive for the consumer, whether that consumer—well, in most cases, we are talking about business consumers, truckers.

Why should we give them a disincentive to replace their tires?

Secretary LEWIS. Sir, on 98 percent of the tires being purchased in this country, there will be a reduction. On tires, tubes, and tread rubber, which you will see on this chart, there has been a reduction of $420 million approximately, a reduction of about 59 percent.

We are providing an incentive. What we are doing is the tread rubber specifically affects the heavier trucks; and in trying to skew the tax to have them pay a more equitable share in relation to the damage they do the highways, we came up with the tread-rubber concept.

It has been taxed in the past. But actually tires and tubes for 98 percent of the people will actually go down.

Mr. BRODHEAD. I don't disagree. I think there are few people who would disagree with the wisdom of placing a relatively greater proportion of the taxes on those who do the greatest damage to the highways. The question is whether we ought to provide them with a disincentive, whether or not we are giving them a disincentive to make the operation of their vehicle as safe as possible.

I think the same is true with respect to the tax on truck parts. I think you are really going to have to look very closely at that. The tax already is an administrative nightmare for people. There is a difficulty in distinguishing what is an automobile part, a truck part, a bus part. As you know, the bus parts and auto parts are not subject to the tax, only the truck parts are.

There already is a great deal of paperwork involved in this; great problems with the carrying—the fact the dealers have to carry the cost of the tax. That is itself levied at the manufacturers' level. They don't get reimbursed for it until they have sold the vehicle.

Secretary LEWIS. I think the point you are raising is a very solvable problem. When you come up with a bill, you have to have something to start with. We felt this was an equitable way to do it. As you are probably aware, we eliminated the tax on oil completely because we felt we spent more money collecting the tax than was actually collected. We can work with you on that again if there is justification for modifying that.

What we have to do, though, is have the bottom line come out the same way. In other words, if we are going to take it off the tread rubber, it has to come out of somewhere else.

Mr. BRODHEAD. I agree with you on that. I think the amount of revenue you are talking about raising here is consistent with the minimum of what is needed.

I also have a question about the tax on the sales of trucks. This is something that has been bothering me for a long time. The only reason it is there, I think, is that it is a substantial revenue raiser, obviously a very substantial revenue raiser.

I suggest to you and to the administration that as a matter of social policy, it is very bad. Again, we ought to be providing incentives to people to purchase the newer trucks or at least Government ought to be not providing a substantial disincentive to buying new trucks. The newer trucks are safer, more efficient than the older trucks, not to mention the fact we are dealing here with a very, very depressed industry and to be placing a 10-percent tax on a very, very depressed industry really doesn't seem wise.

I certainly applaud the removal of the tax on the trucks of under 33,000 pounds; but the raising of the tax, the increase of the tax on the heavier trucks seems to me not to make sense. Again, I agree with you, the heavier trucks ought to be paying a greater share of the load. The question is whether they ought to be paying it through a truck sales tax or whether they might—ought to be paying it through a higher tax on fuel or through a higher use tax.

That seems to me it would make a lot more sense to choose either one of the latter routes than to choose the truck sales tax.

Secretary LEWIS. Actually, the net out in terms of sales tax is down 6 percent, mainly because we are shifting it away from lighter trucks, as you indicated.

I think the other thing you have to realize, the productivity gains that are going to accrue to the trucking industry out of the modifications on size and weight will give them back about $2 for every dollar they are spending on taxes.

So trucks really are going to come out with an incremental improvement of somewhere between a half of 1 percent to 1 percent of operating costs each year after they pay the increased charges. That includes the heavy trucks.

I don't think this bill is a disincentive if you put the size and weights in with it.

Mr. BRODHEAD. It is true some of the things you are doing, many of the things, most of the things you are doing do go in the right direction. I think at a time when there are literally thousands of people who have been employed in the manufacture of trucks who are walking the streets, we really ought to look very hard at the question of whether the Government ought to be taxing at a rate of 10 percent the product that these people manufacture. Maybe this would be a real good time to take the tax completely off the sales of trucks, heavy trucks, and try to raise the revenue from some other more sensible, socially productive way.

Secretary LEWIS. The only problem you have with that is you say it is a large revenue item. It will be difficult to supplement it somewhere else. I should also indicate out of this modification of size and weights, we will do more to provide employment in the industries you are concerned about than any other thing you could do.

Obviously, if you are in the plywood business you will not sit with a 96-inch truck if you can get one at 102 inches. There are modifications that are going to be a stimulus to the truck manufacturing business and the trailer manufacturing business.

Mr. BRODHEAD. I would just like to see us do a little more.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Jenkins will inquire.

Mr. JENKINS. I want to follow up on the questions asked by Mr. Archer, if I could.

My colleague from Georgia, Mr. Fowler, has not yet returned to Washington because of the election in his district and I am asking this on his behalf as well as my own.

As I understand it there is in the existing proposal a very definite bias against emerging rapid rail systems in some growing metropolitan areas like Houston and Atlanta; and you have addressed this somewhat.

All of us in Georgia know the importance of MARTA's rapid rail system to the Metro Atlanta area. That system needs to be completed in order to do the job it was designed to do.

In keeping with this administration's policy of local responsibility, MARTA was the first system in the country to dedicate a very major portion of local revenue to the system through a special sales tax that has been in existence for some time. It is very doubtful that we could ask more out of a local government than the Georgia governments have provided to the MARTA system.

As I understand the present proposal, there will be no money available for the new systems, the growing systems, like Atlanta. Am I correct?

Secretary LEWIS. If a change is not made, we would not be permitted to have new starts in Atlanta. I would like to make a side comment on that.

Atlanta has done an outstanding job. MARTA is one of the finest systems in the country. The whole area is to be congratulated. You are correct, unless we make modifications so the money can be used for new starts, and it is clear our Department will approve them, there would be no money.

Mr. JENKINS. Then obviously I would——

Secretary LEWIS. The completion of the projects already underway obviously we would continue to fund.

Mr. JENKINS. In other words, to make some additional money available, we would have to increase the amount going into section 9.

Secretary LEWIS. The problem is not where the money is. The problem is getting approval for new starts.

Mr. JENKINS. Speaking on behalf of Mr. Fowler from Atlanta, who is not here, as well as on my own behalf, I think that unless we could get something in the law that would take care of systems like this, then there would be very obvious opposition. I appreciate the Secretary's indication that he understands the dilemma and will work to try to change the present language.

Secretary LEWIS. I understand the dilemma. I concur with your views. I am trying to get it resolved internally within the administration.

Mr. JENKINS. Mr. Secretary, let me go to another issue or two.

In Georgia we have had a rebate system for shrinkage and waste on the retail level. I think we have had this since the 1940's. Obviously the retailers take a loss if they pay taxes on the bulk amount that comes in. Is there anything in your proposal that would provide a similar rebate to the retailer for waste and shrinkage on gasoline?

Secretary LEWIS. That really would have to be a question answered by the Treasury Department, again. The Treasury Department, if they concur with this, we would be supportive. You will be hearing from a witness from the Treasury Department. He should answer that question.

Mr. JENKINS. Mr. Secretary, let me ask you one other question. In the tread rubber tax that you have already addressed, it is my understanding that the increase in the tax on tread rubber would only apply to truck tires. Is that correct?

Secretary LEWIS. Yes. It is targeted mostly for trucks.

Mr. JENKINS. In other words, the increase from 5 cents to 25 cents for recapping would not apply to regular passenger car tires.

Secretary LEWIS. No. It is all retreaded tires, but 50 percent of the revenue would come from trucks. It would affect passenger tires, too; but the bulk of this tax would go on heavy trucks or trucks.

Mr. JENKINS. But, to take for example, a small tire recapping place, that might deal only in passenger automobile tires, their tax under the proposal is going from 5 cents a pound to 25 cents a pound. Is that correct?

Secretary LEWIS. Yes. It would add less than 5 percent to the cost of a retreaded tire. Probably about $1.20 on a small tire.

Mr. JENKINS. What are you doing with new tires?

Secretary LEWIS. We have eliminated the new tires tax.

Mr. JENKINS. In other words, you have taken the tax——

Secretary LEWIS. In that category. What we are trying to do is to shift the burden again from the little guy driving back and forth to work in his pickup truck or car and place it on the heavy trucks where it should be.

Mr. JENKINS. The only problem I see is that the little fellow with the pickup truck may be the very fellow getting his tires recapped rather than buying new ones.

Secretary LEWIS. About 50 percent would be in the truck category. Again, this is something, as I indicated to the previous questioner, if this is something that is going to create a great deal of difficulty, we have no problem shifting this, as long as we can find the revenues somewhere else.

Mr. JENKINS. Well, there is not much revenue involved, as I understand your testimony; less than $25 million.

Secretary LEWIS. About $134 million would be raised from this.

Mr. JENKINS. My time is up. Thank you.

Chairman ROSTENKOWSKI. Mr. Schulze will inquire.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Secretary, I have only one question. During the deliberations on this matter, did you consider at all a percentage gas tax? It seems to me to make a great deal of sense to go to a percentage rather than this flat increase.

I wonder if you did consider it, and, if it was rejected, why?

Secretary LEWIS. We did consider that. As a matter of fact, that was the original proposal coming out of our Department, going back 18 or 20 months. We reached the conclusion, having talked with a number of people on this committee, and in the Public Works Committee where I normally appear, and it was very clear that the committees would not support an ad valorem, a percentage tax, fundamentally because they felt they lost control of how many dollars were going in the trust fund; and at least on the flat tax, and we looked at the programs and the tax, they can match the two together and felt they couldn't if they had a percentage tax.

Had this happened, for example, in 1959, we now wouldn't be here today. We would have 15 cents which is 6 cents more than we presently have.

So we would have excess money in the highway trust fund, more money than we would know what to do with. For that reason, right or wrong, we reached the conclusion we were not going to get congressional support over something which they could not pin down in clear dollars.

Mr. SCHULZE. What would be the conservation effects of this additional 5 cents?

Secretary LEWIS. We really haven't addressed the conservation with the exception of just the sense that it improves the commerce of the country, it improves the productivity of the trucking industry, it reduces the expenditures of the average consumer; but as far as if you are talking about environmental conservation, we don't see much effect.

Mr. SCHULZE. Will it have an inhibiting effect on gasoline purchases? Usually when you increase the price of a product, sometimes there is a point where you sell less.

Secretary LEWIS. We think, first of all, the 5 cents—I misconstrued your question. We don't know how much of the 5 cents at the refinery will be passed on. I assume most of it, but with the industry being as competitive as it is, not all of it will be passed on.

We feel this will have very little impact in terms of having people drive less miles, mainly because gasoline was heading up toward $1.50, it is down in the $1.30 range now. The 5 cents we don't think will have any impact whatsoever. We cannot sell it as a conservation measure by any stretch of the imagination.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Guarini will inquire.

Mr. GUARINI. Thank you, Mr. Chairman.

From what I have observed with the 10 percent, Mr. Secretary, of the across-the-board tax, that we gave a tax cut to the people, we shifted the burden as has often been alleged from the poor and gave the advantage to the wealthy.

Now I see that with this 5-percent gasoline tax hike, what we are really doing is having an excise or use tax that is again shifting the burden to the consumer and to the workingman.

So what we see as a matter of philosophy in our economy is a change of position as to our tax base. What concerns me is that our taxes in order to work must be fair and equitable. I think there is a perception out there in the public that it is not any longer as fair and equitable as they once thought it was.

Have any studies been completed on—I know you said it was fair and equitable as to the use of the highways. Has any study been done as to the impact on the consumer, or impact on the industry which we are trying to tax? Would we say that it is fair and equitable as to the ability to pay not just merely looking at it from what is fair and equitable?

Secretary LEWIS. Let's break down where the revenues are going from this tax—20 percent is going into capital expenditures for mass transit, which I would say would fundamentally benefit lower income recipients of this tax. Of the balance of the 80 percent, 20 percent more is going to be paid by the trucking industry. They will benefit from it in terms of increased productivity.

You are down now to 60 percent of the tax being paid by America across the board. It is our attitude and has been consistently that people that benefit from a program should pay for it. In this case, the average person going to and from work, no question, will pay $30. That is a cost of about two shock absorbers.

Also, he will have better highways to travel on, less repairs. We are not trying to discount that or sell it on that basis. I should point out we just passed an aviation tax of 8 percent on the tickets of people that fly the airlines and the aviation industry and general aviation, people that have private jets. This will raise about $3 billion annually or something in that range.

Those funds are all going to go, not to the person on mass transportation, but the people flying in a corporate jet or flying in commercial aviation which is probably your higher income people. I am trying to say I don't think there is an inconsistency in what we are doing. What we are trying to do is see that the people that benefit from the service as close as possible pay for it.

Interestingly enough, I talked to a number of people throughout this country on this proposal for the last 20 months. I don't sense an opposition from even the guy who is just going to drive his car back and forth to work, if he thinks he will get something for his money, get his highways improved, and have safe bridges.

Mr. GUARINI. If the trucking industry is being taxed, that tax, income, in business will be passed on to the consumers; is that not correct? With these added taxes you put onto the trucking industry, they are really taxes that will be passed along in the cost of doing business.

Whenever you have a billion dollars in taxes, the trucking industry, of course, would put on some additional—pass on additional costs so it will be more than a billion dollars that would be, as an example, increased cost to the consumer.

Secretary LEWIS. I don't think there is any question that any tax ultimately ends up being paid by the person that pays it. I think you have also hit the point in our highways and bridges that we have such tremendous deterioration, one alternative is to take it out of general revenues or sit there and watch bridges literally collapse, or see highways where some people are slowing down from 55 miles an hour down to 35 because of deterioration of the interstates.

We cannot afford that.

Mr. GUARINI. Mr. Secretary, we have a graduated tax. If we take it out of the 5-cent tax increase that is proposed, we are really taxing every workingman in America evenly for the amount of gas he consumes.

Secretary LEWIS. Except this tax has not been increased. The greatest bargain anybody has had in this country is the use of our highways and bridges. We have not paid an increase in tax going back to 1959. That is 23 years. I don't think it is unreasonable to expect that group to share this burden.

I think it is consistent with having users pay for the benefits they receive. It is not geared or tried to be skewed in any way to hit the lower income people but rather the people that benefit from the services.

Mr. GUARINI. It is a matter of putting the burden where it could be most easily met.

Chairman ROSTENKOWSKI. Mr. Russo will inquire.

Mr. RUSSO. Thank you, Mr. Chairman.

Mr. Secretary, you have fought very hard within the administration to convince them to adopt this particular proposal. In fact, it was originally rejected. At the time this rejection occurred did the administration have alternatives to offer in lieu of a 5-cent gas tax?

Secretary LEWIS. It was deferred, not rejected. Nonetheless, it was deferred because at that time they had the $98 billion tax reform bill or tax bill, whatever you want to call it, that came up in the August session. They felt this added a complication to that bill that they felt they did not want to encumber the bill with, that it should rise and fall on its own.

For that reason it was deferred.

Mr. RUSSO. Has it always been the policy of this administration, to deal constructively with infrastructure problems? Has it been a priority with them? Didn't they feel that there wasn't sufficient money in the budget to be able to address this problem, and that unless you could figure out a way to come up with the revenue, infrastructure issues were not going to be dealt with?

Secretary LEWIS. It was a priority item. Indicative of that is the fact we are doing a great deal to help the airports, the air aviation industry, and general aviation. It was also in this case indicative of the fact the President is supporting this bill even though he does not really like the idea of increasing taxes, even though this is a user fee.

Mr. RUSSO. I don't like the idea of increasing taxes, either. I think there are alternatives that this administration should have looked at. My personal feeling is if the administration—not referring to you because obviously you have been talking about infrastructure and trying to come up with a plan to pay for it, and I applaud you for that—but I wish this administration was as dedicated to rebuilding the decaying infrastructure of this country as much as they are committed to strengthening the defense posture of this country which they say is eroding, too. Unfortunately, when they finally build all these weapons systems and in the process destroy our society economically by failing to deal with the decay in the infrastructure going on now, there will not be much left to defend.

We will have high unemployment, an economic foundation that continues to erode because the $5 billion you are talking about is not enough to deal—and I am sure you are aware of this—is not enough to deal with the overall infrastructure problem the country is facing.

I would suspect that had this matter been given the priority you wish it had, then maybe the President would allocate our resources a great deal differently than he is doing right now. I guess when I asked you the question were there alternatives, you might say yes, we thought we could raise the money by cutting defense spending a little bit by letting the Pentagon pass not $40 billion a year down a hole, but instead $30 billion, thus taking $10 billion and do something good with it.

If I can quote David Stockman from the Atlantic Monthly, he said, "There is at least $30 billion worth of waste in this behemoth bureaucracy." I hoped you could find that $30 billion, take it out of defense, put it into infrastructure, and then we wouldn't have to burden the American people with a 5-cent gas tax.

Is there any chance of convincing the administration that there is another way to raise the money, because I know the President doesn't like tax increases?

Secretary LEWIS. First of all, I think it is consistent to have the people that benefit from the services pay for them. In highways, it has been the tradition that this has been a trust fund paid for out of gasoline user fees. I find it totally consistent with what we want to do.

I also feel the funds we are raising are adequate.

If you permit us to have this bill, we are going to find within 3 to 5 years you have significantly improved the infrastructure of highways, bridges, and mass transportation.

Under the Staggers act, the rails are doing well. We will be doing a great deal for the infrastructure.

Mr. RUSSO. How about the sewer system?

Secretary LEWIS. I cannot comment on that. My responsibility is transportation.

Mr. RUSSO. How about the roadbeds?

Secretary LEWIS. The railroad industry is in better shape than it has ever been in as a result of deregulation and the Staggers act. If you look at the return, it is considerably higher than in the past. Conrail, even in a recession year for the first time, will make money this year. I think the railroad industry, except for the present condition of the economy, is in the strongest position it has ever been in to capture an increased share of the market and increased profitability.

I don't think we need any money on roadbeds is what I am saying.

Mr. RUSSO. Thank you.

Mr. PICKLE [presiding]. The Chair recognizes Mr. Gradison.

Mr. GRADISON. Thank you, Mr. Chairman.

Mr. Secretary, in Ohio there has been a major increase in the gasoline tax, very well accepted by the public. I have spoken with members of the legislature on both sides of the aisle who said they received virtually no complaints about it. But it was structured in a somewhat different way than the one you are recommending in that it was phased in rather than having the entire increase take place all at one time.

I wonder whether you have considered phasing this 5 cent increase in over a period of a year or 18 months, two years, something of this sort, as we did in Ohio rather than having it all take effect at one time? And if we were to do so, would it substantially hamper the plans for early outlays?

Secretary LEWIS. In terms of phasing it in, as I indicated earlier, Congressman, we intend not to impose the tax until we actually start the projects. There will be a delay so you get the benefit both in terms of seeing work done in the jobs benefit of this bill before the tax is imposed.

Second, we felt the 5 cents in terms of elasticity demand of gasoline would not be affected and that in view of the fact there has been a glut on gasoline and the prices are somewhat depressed that we should bite the bullet, get on with the program, and start repairing our highways and bridges.

As I indicated earlier, we already have about a $5 to $6 billion backlog sitting there that we cannot complete because we don't have the funds for it and we spent $3 billion in the last 2 years, more than we have taken into the trust fund. So obviously your alternative is a possibility.

We felt we should move, move decisively and get on with the needs of the programs.

Mr. **Gradison**. Mr. Secretary, other things being equal, what effect will the package of tax increases that you are recommending or user fees—whatever—have on the inflation rate as reported by the CPI?

Secretary **Lewis**. A very, very modest effect. We had that figure in one of our reports. Does anybody recall specifically? We got this from the Council of Economic Advisers.

I can submit that to you. It ranges from 0 to 0.2 percent in the mid 1980's, under the worst assumptions. Let me give you the specific figure.

We did calculate that at the time we submitted the recommendation to the administration.

Mr. **Gradison**. That would be very helpful to have.

Secretary **Lewis**. If I can find it, I will give it to you.

Mr. **Gradison**. Thank you, Mr. Chairman.

Mr. **Pickle**. The Chair recognizes the gentleman from Ohio, Mr. Pease.

Mr. **Pease**. Thank you very much, Mr. Chairman.

Mr. Secretary, as has been said by Mr. Gradison, Ohio did increase its gasoline tax last year. A major motivation for doing that was the inability previous to that of the State to provide sufficient matching funds so that Federal highway moneys normally available to Ohio were not available because we couldn't come up with the matching money.

Now we can come up with the matching money. It is my understanding that trying to reach back for those funds which were allocated to Ohio, we are now prevented from getting all of the funds allocated to us because of an artificial cap put on by your Department; is that correct? And if so, what can be done about that?

Secretary **Lewis**. Do you want to comment on that, Ray?

Mr. **Barnhart**. That refers to the obligation ceiling which would go up to $11 billion from the present level. So I think that problem would be resolved.

Secretary **Lewis**. Mr. Pease's question is, Can he go back and pick up the money he lost as a result of not having matching funds in previous years? That is the question.

Mr. **Barnhart**. He hasn't really lost them. They have continued on. You really haven't lost them.

Secretary **Lewis**. That is my impression. The answer is that despite the fact there has been a lapse, the funds have not been taken away from Ohio. As you come up with the matching funds, you will be receiving again a disproportional share in relation to other States.

One of the reasons some of these States have been donors, they never had the matching funds. We had the same problem in my State of Pennsylvania.

Mr. **Pease**. Whatever we are entitled to pick up from fiscal year 1979, 1980, or 1981, we were not able to—we are not able now to pick up that full amount even though we have the matching money, because your Department says we are trying to restrict the outflow from the trust fund?

Secretary **Lewis**. That is strictly because of the shortage of funds. This problem will be relieved by having additional moneys. The problem we have now is we have so many projects under construction that were contracted before this problem existed in Ohio, that we are now $3 billion over the amount that is being taken into the trust funds.

We have obligation ceilings that are imposed on us by the Congress. The question to answer it specifically, Ray, assuming we have an additional $4.4 billion, are we going to be able to go back and pick up these projects that have never been lapsed but for which there were no funds?

Mr. **Barnhart**. When the obligation ceiling goes up, you will be able to expend more dollars. You are really not going to lose anything. It was deferred.

Mr. **Pease**. Passage of this bill, then, would take care of that problem?

Mr. **Barnhart**. Yes, sir.

Mr. **Pease**. Is there any change in this bill in the allocation formula either for mass transit or for highway construction?

Secretary **Lewis**. Essentially we have kept all highway allocation formulas the same simply because we felt in a 3-week period we would get in a hassle about who was a donor, a donee, and that did not make sense. We should take advantage of whatever job improvement would come out of the bill.

Mr. **Pease**. Is it your statement then there is nothing in this bill that would adversely effect either the State of Ohio or the Northeast-Midwest region of the country as a region vis-a-vis the present law?

Secretary **Lewis**. That is correct. I should point out in answer to Mr. Archer's comment earlier in terms of Texas being a donor State, this would be skewed to the Northeast, Midwest, actually your State of Ohio has consistently been a donor State getting back about 89 cents. New Jersey is another in the Northeast, about 82 cents.

The situation on Texas, they last year were about 83 cents. So the answer is that we are not trying to skew this to help any area of the country or hurt any area. We are trying to do what is right in terms of highway and bridge needs.

Mr. **Barnhart**. Mr. Pease, I might say as we complete the interstate, we will eliminate that imbalance, but it is that drain generally on completion of the interstate that is a major cause of the donor-donee situation, because interstate completion is a Federal or national responsibility.

As we increase our funding into the 4-R category, the primary category, the donor States will achieve some gain.

Mr. **Pease**. One last question before my time runs out.

In your statement, Mr. Secretary, you say that urban rail and bus transit capital investment needs could total almost $50 billion during the next decade. Under this bill, it will be allocated about

$11 billion over the next decade. Where is the remaining $39 billion going to come from?

Secretary **Lewis**. We also have present allocations and also there are matching local funds and local programs of this type. We talked about the total needs of the country, in total dollars how much will be going into capital expenditures if you add the 1.1 to your present levels? What will that come to per year?

Mr. **Teele**. Our mark will be about $1.6 to $1.9 billion, depending upon the year in addition to the $1.1 billion for transit.

Secretary **Lewis**. We are talking about $2.3 to $3 billion. I think that was misleading in my statement.

Mr. **Pease**. Thank you very much.

Mr. **Pickle**. Mr. Hance.

Mr. **Hance**. Mr. Secretary, just one brief question.

Would you consider supporting a change in the allocation formula to guarantee 90-percent rate of return on each State?

Secretary **Lewis**. We cannot do that for this reason: I would hope you would not impose that on us, because we have States, for example, Florida right now which historically has been a donor State—just trying to look at it here on the chart—they are getting back—they are getting back $1.42 where historically they were only getting back about 85 cents.

We have to complete the Interstate System in Florida. The only way to do it, because they lagged behind other States, is to have the flexibility to be able to do those programs. If you move it to 90 cents, you are going to greatly damage the overall interstate movement of commerce. Your smaller States, Nebraska, as an example, has tremendous flowthrough of traffic in terms of tractor-trailers, the trucking industry.

We have to keep the system together, and that would impose an undue hardship on us. Again the States that are donor States are the States that are manufacturing these goods. You have to be able to get the products out of Texas, for example, elsewhere in the country. If we don't have an adequate primary and Interstate System, virtually all this money is going to maintain that system and complete it, you just tie our hands so tight we wouldn't be able to accomplish what we think you feel should be our mission.

Mr. **Hance**. Mr. Barnhart, did you answer to the previous question that the distribution of funds would be more in balance once the system is completed?

Mr. **Barnhart**. Once the interstate is completed. That is why a high priority has been completion of the interstate which we want to get done by 1990. If we delay it, it adds several billion dollars more to the cost of completion because of inflation. That is the No. 1 factor.

Texas is faring much better now than it had been in the past because of the change of direction of the programs.

Mr. **Hance**. One of your objectives, Mr. Barnhart, in your overall Interstate Highway System, is to have the interstates all connect so that there would be an easier flow of traffic; would that be correct?

Mr. **Barnhart**. Yes, sir.

Mr. **Hance**. You are trying to achieve that by connecting various interstates with each other?

Mr. **Barnhart**. Yes.

Texas still has a section that you are very familiar with that is scheduled for completion. Texas will benefit from this new proposal. As a Texan, I can attest to that.

Secretary **Lewis**. He may have to go back there some day.

Mr. **Hance**. I won't touch that line.

Mr. **Barnhart**. But only equitably so.

Mr. **Pickle**. Obviously you are through, Mr. Hance; is that correct?

The Chair recognizes Mr. Moore for questioning.

Mr. **Moore**. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee. I admire your persistence in this matter. I have no questions.

Mr. **Pickle**. The Chair recognizes Mr. Frenzel.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your testimony. I was not here to hear it delivered. I did have a chance to read it. I have some questions about the tax aspects of your proposal which I do not fully understand.

As I understand it, you have raised the rubber tax from a nickel a pound to two bits a pound, but you have eliminated it for passenger car tires. Do you want to tell us why?

Secretary **Lewis**. Because we are trying to skew the tax to make it more equitable to lift the tax in terms of the private passenger car and light trucks and place it on heavy trucks who are doing the most significant damage to our highways, and the tread rubber tax will fundamentally—that tax will fall on heavy trucks fundamentally.

Mr. **Frenzel**. There are, of course, passenger car drivers who use retreads; why should they be taxed when new tire buyers who have passenger cars are not taxed?

Secretary **Lewis**. When you try to put these packages together, you try to take what you feel is an equitable kind of package. Again, we have reduced tires, tubes, and tread rubber taxes in total about 59 percent, and felt that this would skew it. The tread rubber tax proposal will yield about $134 million.

The question has been raised by three or four people if this is something that creates great agony as far as the Congress is concerned. It is my recommendation that we modify our view as long as you permit us to pick that money up somewhere else. It is actually $26 million now. It will go to about $34 million under this tax.

We are talking about a hundred million dollars tax, which is a significant part of the revenue.

Mr. **Frenzel**. Overall on tires, tubes, and treads you are talking about half a billion dollars in 1988, which is a give-up.

Secretary **Lewis**. We are talking about 1985. I don't have the 1988 figures in front of me. We are taking it from $716 million to $293 million, a reduction of over $400 million.

Mr. **Frenzel**. So you are skewing the burden in trying to take it off the passenger car driver and lay it on the trucks, are you?

Secretary **Lewis**. We are not trying to lay it on the trucks. What we are trying to do is come up with an equitable distribution in terms of the people that are benefiting from the system. I think you have to recognize that the trucking industry makes their money on the national federal highway system. We think they should pay their fair share. We are not trying to lay it on them. We are trying to see they pay an equitable share.

Presently they are not paying a fair share and they are ripping up the highways.

Mr. FRENZEL. So in addition to the extra nickel, you are playing Robin Hood, too, in this bill and rearranging the burden?

Secretary LEWIS. We are not playing Robin Hood. We are trying to comply with the congressionally mandated study we submitted to you about a year ago. In that study, it was clear there was an inequitable distribution. We felt if we should have a user fee, it should be spread in a manner that those who most benefit pay most of the dollars.

Mr. FRENZEL. We are talking about a fair amount of money outside of the nickel tax. I just want to be sure why you are doing it.

Secretary LEWIS. We are not talking about additional revenues. We are talking about a shift in the burden of those revenues.

Mr. FRENZEL. That is correct. You indicate, or somebody indicates here, that busses which are now exempt from the 4-cent tax will pay a nickel in the future, but then there are a number of exemptions from the busses. Can you tell us what busses are going to pay taxes?

Secretary LEWIS. Essentially, we are talking about inter-city busses. As we looked at it in terms of fees, I have the figures here which I will submit to you. Essentially, we are talking about a very, very small impact on their revenues and would be picked up in a relatively short time in terms of maybe half a busload of people. We are not talking about very significant fees, and they still don't pay their share. Even with this tax, the inter-city bus industry will only pay about 35 percent of the costs that should be allocated to them based on the deterioration they bring to the highway system.

Mr. FRENZEL. Let me see if I understand you. The State and local government are exempted. That means that most busses in intracity or at least in intrametropolitan areas will be exempt; is that correct?

Secretary LEWIS. That is correct.

Mr. FRENZEL. Who is going to pay this tax will be the companies like Greyhound, Trailways?

Secretary LEWIS. That is correct.

Mr. FRENZEL. Is there any good reason they shouldn't pay the 9 cents?

Secretary LEWIS. Again, we can modify everything in this bill. We tried to come up with what we felt was an evenhanded way to address this issue. We felt this did not have a significant impact on them in terms of disrupting service, which, obviously, we want to maintain and felt they could very easily justify paying this increased fee. We have tried not in anyway to modify the previous 4-cent tax, in any aspect of the bill. Again, we are trying to keep it as simple as we can because we realize that time is very short.

Mr. FRENZEL. Probably the most interesting tax aspect is that you have exempted gasohol completly, have you not?

Secretary LEWIS. Gasohol, by our bill, has been exempted completely.

Mr. FRENZEL. That is true when it is blended as well as when it is pure?

Secretary LEWIS. That is true.

Mr. FRENZEL. Does the exemption apply only to the percentage of the blend?

Secretary LEWIS. Essentially, what we are doing in gasohol—and I think you raise an excellent question here—we are going to exempt the gasohol industry by this bill by about $450 million a year which over a 10-year period if we are talking about that in terms of exemption of the highway trust is about $4½ billion. It presently, as you know, is on the 4 cents.

Mr. FRENZEL. It seems to me you are giving an awfully large subsidy to gasohol. When you try to exempt the nonpetroleum aspect, you are exempting 9 gallons of oil for every 1 gallon of methanol or ethanol or whatever the blend is. I am not sure I have an opinion on it, but it seems to me like you are giving up a lot of revenue in this.

Secretary LEWIS. If in the judgment of this committee that revenue should be modified, as an example, for an offset partially to the hundred million dollars on the tread rubber that concerns you, we would certainly be pleased to work with your staff to try to reach that accommodation.

Mr. FRENZEL. Thank you, Mr. Secretary, for your excellent testimony. I certainly do not quarrel with the need for the program.

Mr. Chairman, I yield the balance of my time.

Chairman ROSTENKOWSKI. Mr. Matsui will inquire.

Mr. MATSUI. Thank you, Mr. Chairman.

You exempt gasohol, but methanol and ethanol are not exempted. Is there any reason or have you thought about that as a possible exemption?

Mr. Sharp, chairman of the Energy Subcommittee of the Energy and Commerce Committee has held hearings on this matter and has concluded that methanol perhaps should be exempted along with gasohol.

Secretary LEWIS. Do you want to comment on that, Federal Highway Department?

[No information was supplied from the Department.]

Mr. MATSUI. Thank you. The primary question I want to ask is the following: Had you had more time rather than the short 3-week period or 1-month period that you were granted after the administration consented to this 5-cent increase proposal, would you have changed the direction of the formula at all or would you have kept it as is?

Secretary LEWIS. We would have kept it as is. This is not something we just put together overnight. Obviously, we didn't get it cleared by the administration until the end of this weekend, but we have been working on this now for about 20, 22 months. We had a clear idea where we wanted to go both on truck size and weights, reallocation of their taxes, and on the user fee itself and the manner in which it would be distributed. This is not a new concept. I have studied it with many of you on this committee going back 6 or 8 months to see whether there was a possibility of getting your support if I could get the administration's support. I don't want you to think this is something hastily put together with no thought. It has had a great deal of thought. It just happens this is the time that we can bring it to you. We did not have much time to get it to you in advance because I only got approval on this from the President last week, and during that time period, I had to resolve some differences with the Office of Management and Budget and work it out with Treasury.

Mr. MATSUI. I am not suggesting you are acting in haste on this. My only concern is the fact that politically this is the best way for you to come to us--with the formula in place, which precludes making any changes so that it doesn't open up a can of worms. My concern is perhaps shared by Mr. Archer and, of course, Mr. Hance, the fact that our States have historically been donor States and we will probably continue to be donor States. I know in 1981 California received 3 cents more per dollar than we brought in, but I think the long-term analysis will probably show that we will receive less than we put in under this proposed formula. I think that has to be conceded by everybody and perhaps a formula change would give us some assistance as well as Texas.

Secretary LEWIS. I think that is a fair assumption. I think your assumption is not correct that either Texas or California gains by maintaining a properly maintained Interstate System in Nebraska and Idaho and other States that your goods and services move across.

Mr. MATSUI. I conceded that argument to you. I am saying some members, and I know the administration does not, consider H.R. 6211 a jobs bill, but rather an infrastructure bill or a completion of our highway system bill. If it is considered to be a jobs bill by some people, and a number of people think that, perhaps we should look at a different formula for distribution of moneys rather than the one you are recommending.

The second part of my question, you mentioned that it would be 60 to 90 days before some of the funds would be actually distributed under your proposal. Is this correct?

Secretary LEWIS. That is correct. The problem being, I think, it takes something like 31 days—I don't have the exact days—31 days to put out a Federal contract. It takes time to do the paperwork and get a contract and get bids.

Mr. MATSUI. When do you think the first individual would be hired under this proposal? Again, I am not thinking about it from your perception, but——

Secretary LEWIS. I would assume almost immediately on some programs. If this bill gets passed, then we are going to be in a position on some programs, let's say we are assured of money in the sense of making allocations less than we would like to make.

For example, the projects we are talking about in Ohio, if they are underway and tied up because of our obligation ceiling limits, we can put money on that right away. The answer is there will be some people hired in January. What I don't want to do is mislead you and tell you how everybody is going to be hired.

Mr. MATSUI. California has a unique problem. We laid off many of our engineers in our California Transporation Department. We may not be in a position to use the money immediately.

Secretary LEWIS. I believe there are funds that can be used immediately.

Mr. MATSUI. I am saying, that the proper design studies may not have been completed.

Secretary LEWIS. There are two answers to that. We believe there are projects already far enough along in California we can contract immediately. Also, you can bring in private consultants to move this ahead immediately. I don't anticipate any place in the country where we will have significant delays unless we have a matching funds problem and don't resolve that.

Mr. MATSUI. Thank you.

Chairman ROSTENKOWSKI. Mr. Anthony will inquire.

Mr. ANTHONY. Welcome, Mr. Secretary. I have a few questions I would like to ask from a perspective of a rural State with very few interstate miles yet to be completed and no mass transit, the State of Arkansas. Is there a penalty imposed—we are also a barrier State—is there a penalty imposed on barrier States for failure to comply with the weight and length standard?

Secretary LEWIS. We require elimination of the barrier States by Federal law; so, therefore, I would assume you would comply with the law of the land in Arkansas.

Mr. ANTHONY. You have a Federal preemption, a State law?

Secretary LEWIS. In the three States that are barrier States we require that they bring their limits up.

Mr. ANTHONY. There is no penalty built into it if the State does not complete it within a certain period?

Secretary LEWIS. There is a penalty built in. I will ask the highway people to give that to you.

Mr. BARNHART. Interstate construction funds could be withheld if a State did not comply.

Mr. ANTHONY. Do you have a date by which they must comply?

Secretary LEWIS. October 1, 1984, under the administration's bill. I can't give a specific date. We tried to allow time for everybody to adjust to this. We are not trying to say bang, tomorrow, you have to adjust this. Even the tax we plan to impose on the trucking industry, we are satisfied to defer this until they get some of the productivity gains raised by this. I should point out on the barrier States—and I realize its incentive for you—but, we believe the economy will benefit about $650 million by the elimination of this restriction. It is significant to the rest of the country; otherwise, we would not be making this recommendation.

Mr. ANTHONY. I understand that. We want to do our share to try to get this recession over with and build the recovery, but we would also like to share in a little bit of it. As it pertains to mass transit, why should mass transit be contained in this bill? Why should mass transit not be contained as a separate piece of legislation?

Secretary LEWIS. For several reasons. First of all, the urban areas have never received their fair share of highway dollars. We are also at the point where building freeways is unwise. If we were to build the highways needed by Houston by the year 2000, the entire city would be concrete and highways. Century Freeway in Los Angeles is $100 million a mile. Some freeways are going at up to $500 million a mile. We think the highways are being saved by reducing the congestion in the city. Here is what happens. You buy an expensive right-of-way. Once you buy the right-of-way, you rip down the houses, then you have to rebuild, have an urban redevelopment project. By the time you get the highway rebuilt, it is obsolete. When you get to the end of the highway coming into a city, there is no place to put the cars. We end up building a parking garage like at Union Station for $45 million. We think this transit use is a good use of urban funds. Also, we are giving those communities the option, transit or highways. They don't have to spend on mass transit. If they determine they want to go to highways, they can.

Mr. ANTHONY. That leads to the next question.

On page 6, you are holding secondary and urban system programs to the 1982 level. Again, if you have a legislative loophole where a State that has a mass transit system can apply for mass transit funds, the $1.1 billion is added, but you have a rural State like Arkansas that can't do that, and you are holding what is fundamentally the program that is most important to my State at an old level, yet you are pumping additional money into this other program, you create a legislative loophole. It seems to me you are compounding a sensitive situation.

Secretary LEWIS. I don't think we are.

Mr. ANTHONY. Let me ask a question regarding the transferability from IIS to the 4-R program. In Arkanas, the 4-R program is the most important. We have almost completed our IIS system. I understand that transferability will be curtailed after 2 years. If you have a legislative loophole for mass transit systems that can go into highway programs, and a transferability, a deadline of 2 years, and then if you are imposing a Federal mandate over States rights, it just seems to me that you ought to give some consideration to liberalizing the transferability for a State like Arkansas and that you ought to take a hard look at this legislative loophole. I think it ought to be closed myself.

Then I think you ought to take a hard look at increasing the amount of money you would put in the secondary and urban road system rather than holding it at the 1982 level.

Secretary LEWIS. I will comment on part of that. First of all, on the $2.2 billion in urban and rural roads, it is our intention to ultimately turn that back to the States as soon as we can resolve it with the Congress in terms of block grants to be spent as they wish. If they cannot be resolved, the $1.1 billion you are talking about on mass transit, the loophole you are talking about, we actually put in for States like Arkansas, Idaho, some of the more rural, less populated States with the hope if they didn't have the mass transportation needs that Houston has, Philadelphia, Chicago, Boston, you would have the option to spend it as you see fit for farm to market roads needed in your State.

So our intent was to be helpful to you. It was done at the request of a number of Congressmen and Senators from rural States. Insofar as the interstate transfers, the 4-R, when this program goes into effect, we are going to have very adequate funds for 4-R. If you look at our breakdown on the manner in which this money will be spent, a significant part of it will be spent on reconstruction of highways, primaries, bridges, interstates, and the very systems you are talking about. We are prohibited, Ray, from the transfer of interstate funds to 4-R by law, as I understand it.

Mr. Barnhart. Yes. The reason being we have to complete that interstate. If we allow the transferability—remember, the interstate is based upon the cost to complete. So if you take an allotment for interstate transfer to other funds, you retain your, in effect, entitlement to that interstate project which continues to escalate in cost which would add several billions of dollars to the cost to complete.

Mr. Anthony. My point is this: As I understand the legislation as introduced, there is a 2-year limitation built into the transferability. What if we complete our Interstate System? It seems to me we are losing the availability of having transferability into the 4-R program.

Secretary Lewis. The only problem with that is once you complete yours, we still have Florida to complete, pieces in Texas. We want to complete the entire interstate. There will be inequities.

Mr. Anthony. My time has expired.

Chairman Rostenkowski. Mr. Crane will inquire.

Mr. Crane. Thank you, Mr. Chairman.

I, too, would like to welcome the Secretary to the committee. I have a few questions. I understand 10 percent of the Interstate System is as yet uncompleted.

Secretary Lewis. Actually about 5 percent.

Mr. Crane. The highway trust fund was created to construct the interstate?

Secretary Lewis. That is correct.

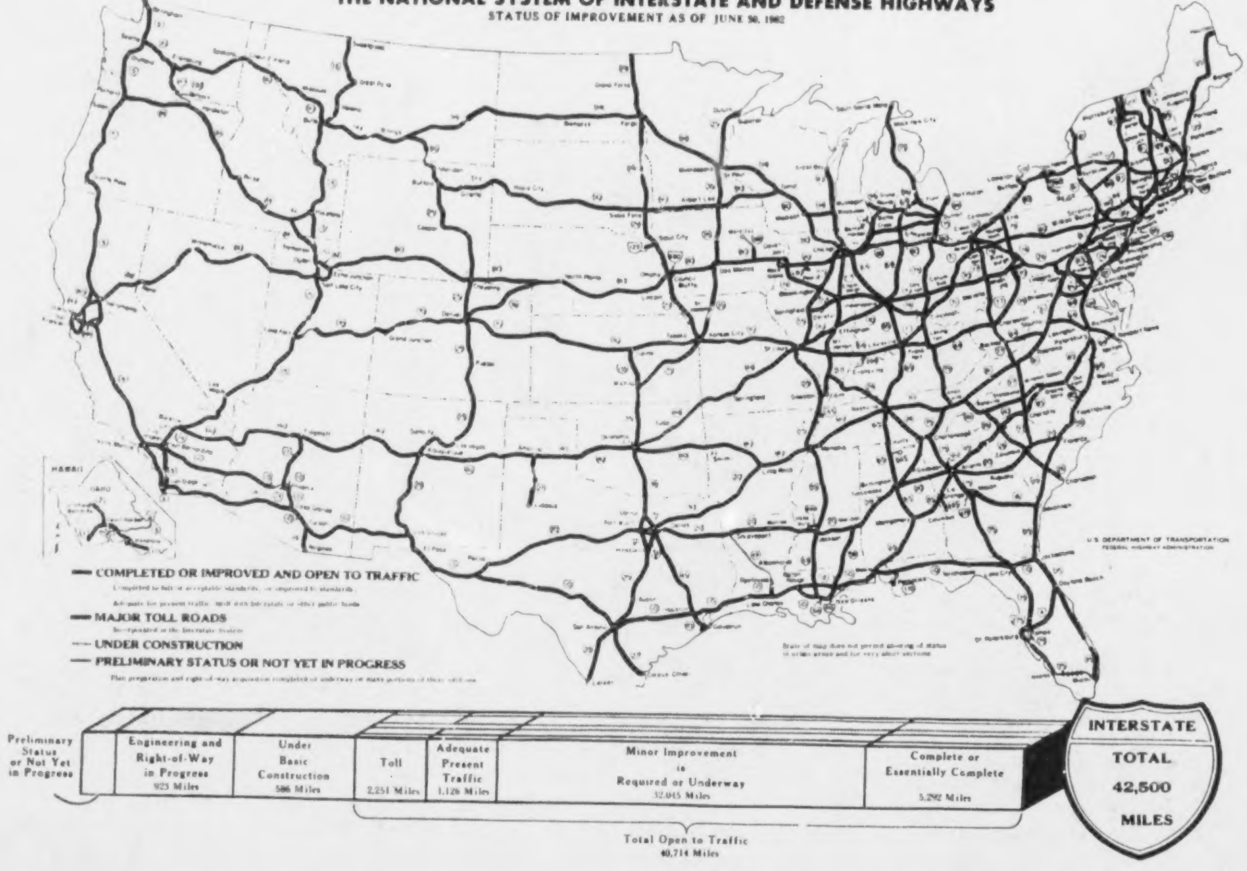
Mr. Crane. Where are those portions uncompleted?

Secretary Lewis. We can give you the details. They are largely very small gaps and they are scattered throughout the country. A few States have completed theirs. There are significant sections in Illinois that need to be completed.

[The information referred to follows:]

THE NATIONAL SYSTEM OF INTERSTATE AND DEFENSE HIGHWAYS

STATUS OF IMPROVEMENT AS OF JUNE 30, 1982


HAWAII
OAHU
U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION
Scale of map does not permit showing of status in urban areas and for very short sections
COMPLETED OR IMPROVED AND OPEN TO TRAFFIC
Completed to full or acceptable standards, or improved to standards
Adequate for present traffic; built with Interstate or other public funds
MAJOR TOLL ROADS
Incorporated in the Interstate System
UNDER CONSTRUCTION
PRELIMINARY STATUS OR NOT YET IN PROGRESS
Plan preparation and right-of-way acquisition completed or underway on many portions of these sections
Preliminary Status or Not Yet in Progress
Engineering and Right-of-Way in Progress 923 Miles
Under Basic Construction 586 Miles
Toll 2,251 Miles
Adequate Present Traffic 1,126 Miles
Minor Improvement is Required or Underway 32,045 Miles
Complete or Essentially Complete 5,292 Miles
Total Open to Traffic 40,714 Miles
INTERSTATE
TOTAL
42,500
MILES

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Mr. **Crane**. But is it possible to go coast to coast on interstate without having those interruptions that existed in Georgia until recently in going north to south on the east coast?

Secretary **Lewis**. I can give you a detailed map outlining the entire Interstate System. I cannot answer the question specifically. I can assure you there are aggravating gaps in parts of the country we are dedicated to completing by 1990 or 1991.

Mr. **Crane**. I can't fault you in your administration of this Department. With all due respect to Mr. Heftel, I think Hawaii's interstate is all completed, isn't it?

Mr. **Heftel**. No. It ends in the middle of nowhere. Nowhere to go.

Mr. **Crane**. I thought maybe transportation was contemplating a big tunnel to the west coast.

Mr. **Heftel**. No. We are a classic example of a deadend and years of waiting to see if it will ever been finished.

Mr. **Crane**. Is the Alaska interstate completed?

Mr. **Barnhart**. They have none.

Mr. **Crane**. They have interstate in Hawaii. I am curious as to some of your predecessors' argument of priorities, why they would ignore some of the continental States and complete Hawaii's Interstate System. I don't understand how Hawaii qualified to begin with.

Secretary **Lewis**. Probably had something to do with congressional influence, I would assume.

Mr. **Crane**. What would you estimate for the projected highway maintenance and further construction of the Interstate System? How much add-on cost is a direct result of Davis-Bacon legislation?

Secretary **Lewis**. Can we answer that specifically?

Mr. **Barnhart**. No, sir; I don't think we can.

Secretary **Lewis**. I don't think I can answer that specifically.

Mr. **Crane**. Has to be billions, though, right? Over a period of years?

Secretary **Lewis**. It would certainly have an escalating effect in certain areas; in others, perhaps not. For example, we just had the Woodrow Wilson Bridge concentrated here which was Davis-Bacon. It came in considerably less than I think any of us anticipated in the final bid.

Mr. **Crane**. Davis-Bacon demonstrably adds to cost. I am just wondering, Mr. Secretary, if you would favor, for the sake of taxpayers and these users, if you would favor the exemption of Davis-Bacon in highway construction, bridge construction, and maintenance?

Secretary **Lewis**. We would not favor the elimination of Davis-Bacon. We have made modifications to that that the Labor Department is continuing to work on. In terms of elimination of Davis-Bacon, we would not support that. The administration has taken that position and, obviously, the administration's position is the position of the Department of Transportation.

Mr. **Crane**. Mr. Secretary, as I understand it, we are contemplating plowing new ground with this legislation in the sense that historically all of these highway funds raised at the national level were for construction, and, States then had the responsibility for maintenance. I am wondering why we are contemplating changing policy?

Secretary LEWIS. We really aren't changing policy. Essentially, the States made the determination of how the money was spent. They will continue to do so. We have been doing this 4-R work, particularly on the interstates and the primaries which we think is our responsibility. We would like to return to all the States the local urban roads, the funding that goes with it, give them the tax revenues and the problem. If Congress will approve that, we will come up with legislation and I am sure I can get administration's approval to do just that. The concern is whether or not the Congress will permit us to do it.

Mr. CRANE. The reason I touched upon this point is I think virtually every State of the Union is mandated to live within its means. We are the only major legislative entity in the United States that is not living under such discipline. Obviously, we don't have the money, and, obviously, even with this so-called user tax fee here, we are still going to be running a monstrous deficit. Since States are empowered to, and in at least one instance, the State of Ohio, they already have levied a nickel-a-gallon tax in that State, why are we doing it at the national level instead of depending upon the more responsible entities, State governments, for the maintenance of the tax?

Secretary LEWIS. In terms of the $2.2 billion presently in our bills as you have approved them here, that money will continue to go to States with local and rural and urban roads. The money we are talking about, the $4.4 billion specifically in highways, will all be used for the programs that we think are a Federal responsibility. We think we have to have an adequate Interstate System, primary system, and the bridges that go with it. We are not spending any of this money, additional money, on local and urban roads. That will not be part of our proposal. We are really trying to fulfill what we see is our responsibility. Sixty-seven percent of the defense mechanisms of this country move over our primaries and interstates. We are trying to maintain, Congressman, those areas that we think are Federal responsibility. We are not trying to increase the bureaucracy, or the strength of the Department of Transportation. If we could get rid of the entire Federal Highway Administration, with all due respect to Mr. Barnhart, we would. We don't see a way to do it. Therefore, we have to maintain those limited areas.

Mr. CRANE. Mr. Secretary, let me conclude by saying that I agree with you wholeheartedly on the importance of having an effective highway network, both economically and in terms of national defense in highways. The Interstate System to me was certainly justifiable. I think it is a great credit, to farsighted people to have constructed it. It serves national defense purposes as well.

On the other hand, I think this Congress has its priorities totally upside down, and the only way I could go along with increasing total taxes in this country is if we got a dollar for dollar trade off; that is, reductions in taxes elsewhere. We are suffering confiscatory levels of taxation right now.

I am sympathetic with the concept of user fees, and I am certainly sympathetic with highways. On the other hand, so long as there are diversions going on of public moneys into vastly lower priority items, and no discipline with regard to restraining that, I cannot accept the idea of increased taxes, with all due respect to the outstanding job that the Secretary has been doing.

Secretary LEWIS. We would like your sympathy transferred into support, but I understand your position.

Mr. CRANE. Thank you.

Chairman ROSTENKOWSKI. Mr. Heftel will inquire.

Mr. HEFTEL. Thank you, Mr. Chairman. I want to assure the Secretary and Mr. Crane that we do not anticipate completing the Hawaii Interstate System so it connects us to the mainland U.S.A.

Mr. Secretary, I want to reaffirm my support for your concept that users should pay for that which they have the use of. It is particularly important in this case that we do it because of an issue not mentioned by you and which is not part of the administration's program by and large, and that is conscious attempts to achieve energy conservation. I wonder if you would want to comment on the administration's view and perception of energy conservation and how you would interrelate that to both the gas tax and the concept of using the highway fund for mass transit which you have properly said is a part of that function, but which again has not been equated with energy conservation?

Secretary LEWIS. In terms of general overall administration policy, obviously there are many people in the administration more knowledegable than I would be in terms of energy conservation. So far as the—this program itself, it is not fundamentally an energy conservation program. However, it is clear that improved roads reduce fuel consumption. It is clear an improved mass transportation system reduces the need for more automobiles and reduces gasoline consumption. There are peripheral benefits conservationwise coming out of this bill. Also, we do not think that the tax itself is going to have any impact whatsoever on the consumption of gasoline in terms of its elasticity of demand.

I guess I have to just be totally fair with you, we didn't think in terms of conservation. We thought in terms of highway, bridge, and mass transportation needs and how to improve that infrastructure.

Mr. HEFTEL. Are you anticipating, Mr. Secretary, escalating the program and the request for funding for mass transit? Are you anticipating abating the policy which prevents any new starts for mass transit?

Secretary LEWIS. We have agreed to review that. I have indicated to the gentleman from Atlanta and the gentleman from Houston that we see an inequity. Those cities that have no old system to maintain and should not be prohibited from new starts. I have submitted that recommendation to the Office of Management and Budget and the administration and hope to get a favorable response. I think that is an inequity in the bill. There is no reason for somebody from Houston to pay a tax and have the money go to Chicago or Philadelphia.

Mr. HEFTEL. Thank you.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Ford will inquire.

Mr. FORD. Thank you very much, Mr. Chairman.

Mr. Secretary, I guess due to the budget cuts we witnessed in the last couple of years here in the Congress we noticed that many States throughout the country have already imposed a gasoline tax. We tried to make up the difference by the budgets. In my State of Tennessee alone we already imposed a 2-cent-a-gallon gasoline tax. I am sure there are other States throughout the country that have imposed a similar tax. Mr. Secretary, has the Department looked at the impact of this 5 cents gasoline tax that we are talking about today, the impact of this regressive type tax on the American people with the States imposing additional gasoline tax?

Secretary LEWIS. Yes, we have. If you look at the total imposition on the American public, we are talking about less than $30 on the average per vehicle. That will be offset by fewer purchases of shock absorbers, axles, tires. There is no question this is an additional burden being paid by the person using the highways. I should point out, however, that 20 percent of these revenues are going to go to benefit lower income people who are fundamentally the participants and travelers on mass transportation; 20 percent of it is being paid by the trucking industry, so we really cannot say that this is a tremendous imposition.

My attitude is that I think the people of this country deserve and are willing to pay for something if they see they get the results. I think that what they are fed up with, all of us in a bipartisan sense, they are fed up with spending their money and getting nothing for it. Here they will get improved highways, bridges, better mass transportation. They get something for their buck here. When you reduce highway maintenance, what you do is end up with a pothole being a roadbuilding job. That is what we are doing now. It is pennywise and poundfoolish not to move in terms of protecting this infrastructure. It is falling down around our ears. Whether you support this bill or not—when I say you, I mean collectively this committee—I think it is my obligation to tell you what is nationally happening to the finest transportation system in the world.

Mr. FORD. Mr. Secretary, I am not sure I will support the legislation. We are talking about a 1-penny increase being available for mass transit. You mentioned in your opening statement $1.1 billion in revenues from the 1 cent will be allocated through a formula for grants to cities and States for the mass transporation investments. State and local government will decide whether to spend the funds. When these dollars are received at our border in Tennessee, who will have jurisdiction over them? The State? The local municipality?

Secretary LEWIS. We have not changed the distribution mechanism we previously had. Essentially there are 115 cities with over a 200,000 population. Whatever their allocable share of this fund would be, they would get it in a block grant. They can make a determination on how that would be spent. On the additional funds available to a State beyond cities of over 200,000, that would go to the State government with the first priority for mass transportation. If they had no needs—as the gentleman from Arkansas expressed a concern—they then could take the funds and use them for farm to market roads.

What we are trying to do is for the first time start rebuilding from a capital standpoint the transportation infrastructure.

Mr. FORD. Section 22 transit funds for highway uses under title 23 says, if section 22 funds are released for highway uses, the availability of urban mass transit discretion area funds for projects that could be funded under section 22, you indicate will be significantly restricted?

Secretary LEWIS. What we are doing on that is to see that the money goes for mass transportation. What we don't want to do is say look, city X, Philadelphia, as an example, my hometown, if they decide they don't want to take the money for mass transit and want to put it in highway systems, what we don't want them to do is divert that money into highways and come back through some back door and say we want mass transportation money because we don't have mass transportation money.

We think this provides an incentive so the money goes to mass transportation.

Mr. FORD. One final question. In the Transit Act, would any of those dollars be available for operating assistance?

Secretary LEWIS. These are all capital dollars. The reason we are trying to do that is that the fundamental needs, whether it is a Houston or Atlanta tax, is to build a capital structure, or the repairs in a Chicago, a Philadelphia, a Boston. It is either repairs or to build new systems. The one thing I have sensed in mass transportation, if you give the city a chance to use the money on capital or operating, they are always going to opt out for operating. That is the easy way out. You don't have to face any kind of local tax need.

We feel that operating expenditures should be paid for in mass transportation through a dedicated local tax source and the farebox. We put up 80 percent of the cost of the bus. States put up about 20 percent, 15 or 20. If the local community gets a bus for nothing, they should be able to provide the driver, the fuel and the maintenance of that bus out of the farebox and a dedicated local tax source. The problem is local communities don't want to face up to it. We want to force them to face up to that. Many cities will never rebuild them if we don't provide some kind of funding base for capital expenditures.

Sorry to take so much of your time with those lengthy answers.

Chairman ROSTENKOWSKI. Mr. Secretary, your legislation provides a sunset for some of the exemptions, such as the exemptions for police vehicles, which are permanent under present law. Did you intend to sunset the exemption for State and local governmental vehicles in 1990?

Secretary LEWIS. Do you want to comment on that? I don't know the specific answer to that.

Mr. BARNHART. They are simply subjected to the date of the bill itself.

Chairman ROSTENKOWSKI. Do you mean the sunset of the exemption?

Mr. BARNHART. Yes.

Chairman ROSTENKOWSKI. Do you feel that police departments and fire departments that currently enjoy these exemptions will sit quietly by and let this legislation pass without some reaction?

Mr. **Barnhart**. The taxes and with the exemption we are making them coterminous. When the tax ends, the exemption ends.

Chairman **Rostenkowski**. However, presently, there is a permanent exemption for those vehicles.

Secretary **Lewis**. At the same time you are sunsetting the tax. There would be no tax at the time—in other words, they wouldn't need an exemption if there were no tax to be exempted from.

Chairman **Rostenkowski**. I just know that you will hear from every police and fire department in the country.

Secretary **Lewis**. Mr. Chairman, if that is a concern to you, that is a language problem. We can modify that to meet your needs.

Chairman **Rostenkowski**. Mr. Secretary, you also proposed an exemption from the entire 9 cents for gasohol. People that use gasohol also use the highways. I do not anticipate enthusiastic support for a total exemption on gasohol. Would you like to comment on this proposal, please?

Secretary **Lewis**. The comment I can make is I guess I have a certain limited enthusiasm for it also, and so does the Department of Treasury. We did submit this as part of the bill and the recommendation of many of the people we talked to, both in the House and the Senate. We are concerned with the fact that it would remove $450 million per year or the new exemption—if you keep the exemption on the present 4 cents, we would not lose any out of the new bill, [illegible] speak. But the new bill, the 5 cents, would cost us about [illegible] million. That is an item I think is negotiable in terms of [illegible] modify other taxes that you might find onerous.

Chairman **Rostenkowski**. I also think that when the committee sits down to [illegible] this legislation, we will want to look at these cost allocation [illegible] as well. We will want to carefully examine the exemption [illegible]hol.

Mr. Secretary, you proposed to exempt from the tax on truck parts [illegible] parts other than those used on heavy trucks. However, you do not specify what parts would continue to be taxable. The IRS has told our staff that they cannot issue regulations by April 1 specifying what parts are taxable. Doesn't this really put taxpayers in a difficult situation?

Secretary **Lewis**. That is presently under review by Treasury. I believe Mr. Chapoton is going to comment on that. He will be prepared to comment on that. That is under the control of the Internal Revenue Service.

Chairman **Rostenkowski**. Are there further questions of the Secretary?

Mr. Duncan will inquire.

Mr. **Duncan**. Mr. Secretary, what about the highways through or around national parks? Are they included for aid in this program?

Secretary **Lewis**. The demands that came to us from the Department of the Interior in terms of their needs are included in this bill. Actually, we got the information from them; is that correct?

Mr. **Barnhart**. Yes.

Secretary **Lewis**. I assume we have that adequately covered because we have been working directly with them.

Mr. **Duncan**. What about highways such as the Appalachian Regional Commission Highway?

Secretary LEWIS. The Appalachian regional program remains intact. In fact—it phases out over the period of time originally proposed. That is already in our present bill without this. That is already covered in the previous bill.

Mr. DUNCAN. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Archer will inquire.

Mr. ARCHER. Thank you, Mr. Chairman.

Mr. Secretary, did you contemplate at all converting this tax into a percentage tax rather than a flat tax per gallon?

Secretary LEWIS. Yes, we did. We discussed that with many members on this committee last year, including the chairman, Mr. Conable, and many people on the Senate side. The concern the Congress has on that, Mr. Archer, was the fact they felt they had no control over what was going to happen to the trust fund. For example, you had a percentage tax in 1959, we would now be getting 15 cents instead of the 9 cents we are proposing. You would actually have a surplus in the trust fund. We probably couldn't spend it properly. So the judgment we sense that we got from you here on the Hill was that you would prefer to have a certain sum in terms of tax and also certain programs so that there was a match up between the two rather than give the Department of Transportation now and in future years some sort of carte blanche that they had excess moneys that could not properly be spent.

It was also tied to the fact this money was going into a trust fund and they didn't want the money to accumulate in the trust fund that would be used to balance the budget when it was being collected for users to specifically meet the needs of those users.

Mr. ARCHER. Thank you for that. I have a couple of follow up questions since I ran out of time the first go-round. Can you give any more specificity to your basis for determining what the block grant will be to each community or to each State?

Secretary LEWIS. It is very——

Mr. ARCHER. The block grant concept, that would be a new concept under this bill.

Secretary LEWIS. We proposed this consistently. The manner we would be doing it would be to do it the same way we did in the past. We are not modifying in any way the manner in which we have given these moneys out in the past. The only difference is that as this money goes to capital expenditures on mass transit, the local community, if they had no mass transit needs, can opt out for urban roads and bridges if they prefer to see the money spent in that way. It has to be spent on transportation.

Mr. TEELE. That is correct as it relates to the delivery mechanism. The delivery mechanism will remain the same pursuant to that, however, we will use a new formula in terms of a block grant.

Mr. ARCHER. That is what I am asking for. What is specifically going to be the criteria for determining what the grant will be?

Mr. TEELE. We have taken the advice of the House Oversight Committee in this matter. We have proposed an operating revenue match formula which primarily will give the maximum weight to local governments' support for transit, specifically included being the capital assistance provided for transit, the Federal capital assistance, of course, being based upon the area's share of total nonoperating revenue—transit revenues. Particularly, this means the total amount of money that is put in the farebox and from local government for transit.

So, in effect, the Federal Government will be matching that level of commitment. In some cities where there is a higher level of commitment such as in the city of Houston, they would obviously fare better, we are using this approach and converting from the existing discretionary approach to a block grant mechanism which will allow more predictability and funding and less grantsmanship and more surety of the funding for the various cities.

Secretary LEWIS. I might point out in relation to Houston, you would actually benefit under this proposal because of the significant amount of money you put into your system. You put less of a burden on the system than most other cities. Therefore, if the formula is based, which has been indicated by Mr. Teele, on a formula indicating those who are helping themselves most, you would come out very well under this grant formula proposal.

Mr. ARCHER. I am not sure what determines the overall dimension and size of the grant. We do not have a mass transit system in place today in the sense that Washington and Philadelphia and New York and others have, so there are more riders there, there's more of an input. We are trying to get one started. So inasmuch as we are not currently full blown in that sense, it seems to me that we still have to determine the size of the grant relative to the total amount of the local input which would be determined to a great extent by the size of the existing system.

Secretary LEWIS. If we are able to modify this program which we indicated that your question—you raised earlier—may have seemed justified as I thought it was yesterday in the Senate, if we are able to correct that inequity in terms of the block grants being available to new starts, you will have that going for you.

Second, you do have a system down there. You do have a bus system. You can use it in your bus barns, your bus lanes, the purchase of buses. So it is not like you are excluded even from the old things. That doesn't satisfy your need on the new starts.

Mr. ARCHER. Under the determination—under the proposal that you have sent up here, as I read it—and I think it is very clear—we can't even buy any new buses to expand our fleet with this money. All we can do is modernize, and rehabilitate existing buses. In cities like Houston where you have massive growth and we can't use funds to expand our bus fleet much less build a fixed rail system, it seems to be highly prejudicial.

Secretary LEWIS. I concur with the latter part of your statement.

Mr. ARCHER. I would also like to follow up on our original colloquy that for 1983 and 1984 under your proposal, insofar as existing funding is concerned, you continue to use the formula of one quarter of the money being used based on the 1970 census, and you have not made any change on that in this bill.

Secretary LEWIS. That is only for operating.

Mr. ARCHER. I understand.

Secretary LEWIS. We are phasing out operating. We determined not to change that formula since it is being phased out. Again, from your standpoint, that is almost no factor whatosever.

Mr. PICKLE. Mr. Secretary, I want to follow through on a question that the chairman posed to you about parts. In the study on the highway excise tax structure, the Department of Transportation argues that it would be administratively infeasible to tax only a subset of trucks; yet, in this bill you are proposing that only parts used in 33,000-pound-plus trucks be taxed, even though the experts in your Department said this approach would be infeasible. What is your comment to that?

Secretary Lewis. First of all, you will be talking to Treasury about that. There will be a specific list which, I believe, is going to be submitted ultimately by the Treasury.

Mr. Pickle. I am quoting now from your Department, not from the Secretary of the Treasury. You said, it would be administratively impossible. Yet you turn around and recommend it now.

Secretary Lewis. Well, we reviewed this with the Department of Treasury. We have been going back and forth with them for several weeks. They feel since they are the responsible part in terms of the collection, that it is feasible. They are satisifed they can do it. They are prepared to answer your questions as to how they can do it.

Mr. Pickle. Then you refute your earlier statement that it would be administratively infeasible, since you talked to the Treasury?

Secretary Lewis. That is correct.

Mr. Pickle. I guess you would have to go further when you talk about the parts. You quote in your report you are going to propose an excise tax. You wouldn't tax those parts that would ordinarily be used in trucks 33,000 pounds or less?

Secretary Lewis. I don't know the report you are talking about.

Mr. Pickle. Study of highway excise tax structure in October of 1981.

Secretary Lewis. OK.

Mr. Pickle. The problem we run into, if you are not going to tax parts for the 33,000 pounds or less, but will for those above, there are going to be problems. A lot of these parts are standardized. Not just ordinarily used. A great many are standardized. How are you going to be able——

Secretary Lewis. Standardized parts cannot be on the list.

Mr. Pickle. Will you publish such a list?

Secretary Lewis. Like spark plugs?

That is exacty correct.

Mr. Pickle. If it is a standardized part, you would not tax it?

Secretary Lewis. That is correct. Again that is subject to approval by Treasury. That is a recommendation.

Chairman Rostenkowski. Mr. Archer, 1 minute.

Mr. Archer. It is my understanding Texas will contribute 8 percent of the total funds under this program, under the new 5-cent increase. What is the percentage of new mass transit funds Texas will get? Of the total program? And what is the percentage that we will get under that for our highways?

Mr. Teele. The figure for mass transit will not be calculated until after the Congress has taken a final action consistent with the administrative formula.

Mr. Archer. Do we have the figure as far as highways, what percent Texas will get on highways? We don't have any of that.

Let me ask you this specifically: There are no specifics in the statute on the new distribution criteria. I am going to go back to the same thing I talked about. You say size, condition and such other factors as the Secretary deems appropriate as measurements of the infrastructure rehabilitation needs. Now, you are prepared to make changes in that language, as I understood your testimony, today; is that correct?

Secretary LEWIS. I'm not talking about that. I am talking about specifically new starts. I think the thing you have to realize, Mr. Archer, we are going to continue to spend in Florida a $1.40 or $1.50 return unless their interstate is completed.

Mr. ARCHER. If we are going to have new starts, that language has to be changed?

Secretary LEWIS. In terms of new starts; that is correct.

Mr. TEELE. Mr. Secretary, if I may, the operative portion of this legislation as far as Texas is really concerned, Houston, is section 9(b)(1), which provides that such grants shall not be available for construction of new fixed guideway systems or extensions without the concurrence of the Secretary.

Secretary LEWIS. That is the language we modified.

Mr. ARCHER. You also have this limited to rehabilitation needs? That can't do anything new.

Secretary LEWIS. I understand your point.

Chairman ROSTENKOWSKI. The time of the gentleman has expired.

Mr. Secretary, thank you for joining us this morning. I want you to understand that we will now start hearing about how bad your legislation is. Mr. Secretary, I respect your flexibility in this matter. As you know, it will be very difficult for us to move as expeditiously as we hope. This committee will try to meet all the time requirements so that you will have the authority to distribute funds to the States. I hope, Mr. Secretary, that the groups complaining about the adverse consequences of this legislation will be in touch with you and that you could come back with some agreement on the details of your proposal. I hope, too, that I can sit in with you when compromise is discussed. I want to move this legislation along as swiftly as possible.

Having said that, I want to thank you again and the representatives from your Department that have joined you this morning. I would also like to announce that the Treasury Department officials will be heard immediately after this vote. We will work through lunch.

Thank you very much.

The committee stands in recess for 10 minutes.

[Brief recess.]

[Subsequent to the hearing, the following excerpt from the "Final Report on the Federal Highway Cost Allocation Study" was inserted in the record:]

THE SECRETARY OF TRANSPORTATION,
Washington, D.C., May 13, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Enclosed is the "Final Report on the Federal Highway Cost Allocation Study" in response to the mandate of Section 506 of the Surface Transportation Assistance Act of 1978. A study plan and two progress reports have previously been submitted to the Congress.

Recommendations on the structure of the Highway Trust Fund user charges are based on extensive analyses of the factors influencing highway construction and rehabilitation costs. I believe that highway user charge restructuring should be addressed at the same time as changes in allowable truck sizes and weights.

Sincerely,

DREW LEWIS.

Enclosure.

CHAPTER I.—FINDINGS AND RECOMMENDATIONS

INTRODUCTION

This report has been mandated by Section 506 of the Surface Transportation Assistance Act of 1978 (Public Law 95-599) and responds to the request for: (1) an allocation of Federal highway program costs among the various classes of highway vehicles occasioning such costs; (2) an assessment of the current Federal user charges and recommendations on any more equitable alternatives; and (3) an evaluation of the need for long-term monitoring of roadway deterioration due to traffic use and other factors.[1]

To meet the Section 506 mandate, the Department of Transportation (DOT) carried out a comprehensive study of the costs occasioned in relation to the Federal user charges those vehicles currently contribute to the Highway Trust Fund. The analyses were conducted for a base period, 1976-1978, as well as for a forecast period, 1980-1995, with 1985 as the target analysis year for comparing the allocated future highway costs with alternative new Federal user charge structures. Extensive data bases were assembled on highway costs and vehicle characteristics for 38 vehicle classes.

The alternative user charge structures shown in this report consist of user charge rates (e.g., cents per gallon of motor fuel, etc.) per billion dollars of total target Trust Fund receipts. This allows the report to be more useful to the Congress since various revenue levels and corresponding tax structures can be constructed from the basic alternatives contained in the report.

This chapter contains report findings and recommendations in the following five sections:

Section one on costs occasioned by different vehicle classes addresses the various considerations in allocating costs, the recommended methodology to assign Federal highway costs to different vehicle groups, and the recommended distribution of costs based on that methodology.

Section two on the current user charge structure covers the findings on the relationship between current user charges and costs occasioned by each vehicle class for both the base period and the forecast period, and discusses the issue of exemptions in the current user charge structure.

Section three on the recommended modifications to the Federal user charge structure discusses alternative user charge structures that would be more equitable based on cost allocation findings. The section also describes several adminstrative issues associated with the user charge structure and the impacts of user charge changes.

Section four on the need for long-term roadway deterioration monitoring discusses the effort currently underway and the importance of having better information on roadway deterioration causal factors.

Section five on the continuing Federal highway user charge assessments covers the continuing activities of DOT in the subject area of this report.

COST OCCASIONED BY DIFFERENT VEHICLE CLASSES

Considerations in allocating costs

While there are numerous considerations in this comprehensive highway cost allocation study (HCAS), some of the more significant ones are singled out below.

Efficiency-based methods.—The efficiency-based cost allocation approach establishes user charges equal to marginal costs. Marginal costs are not related to levels of expenditures and can, therefore, be higher or lower. An equity-based approach, on the other hand, allocates levels of expenditures among the vehicle classes. Because of many constraints, efficiency-based cost assignment methods, using either short-run or long-run marginal costs, are not recommended for this Federal study. First, the legislative language focuses on equity rather than economic efficiency. Second, the total user charge receipts are to equal the Trust Fund dollar requirements; efficiency-based user charges could yield more or less revenue. Third, the user charges set by State and local governments (over two-thirds of the dollar level of highway user charges) bear little relationship to efficient charges, and thus changes in the Federal user charge structure aimed at achieving efficiency would be thwarted. Fourth, and most important, Federal user charge instruments could not be developed and implemented that vary geographically and by time of day—a requirement of efficient prices.

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[1] Concurrently, the Department of the Treasury has undertaken a parallel study mandated by Section 507 of the Surface Transporation Assistance Act to study the compliance and administrative aspects of the Highway Trust Fund user charges.

Equity-based methods.—This study's cost allocation approach is predicated on equity or fairness, defined as "cost allocation on the basis of cost occasioning," i.e., those vehicle groups that give rise to certain capital costs should bear the tax burden to pay for such costs. Other equitable approaches could have been used—for example, the assignment of costs in proportion to the ability to pay—if cost-occasioning was not used to measure equity.

Equity is, in part, subjective. The analysis presented in this report seeks to relate cost assignments to causal relationships between vehicle characteristics and additional roadway capital costs. The methods used are thought to be fair and rational and to build upon the methods used by others in this country and in foreign countries.[1]

Traffic growth rates.—The projected and recent past growth rates of travel of large trucks outpaces those of smaller vehicles (see Table IV-15). In addition, the sizes and weights of larger trucks have risen while those of automobiles have declined. These factors mean that large trucks will be responsible for a greater share of highway costs and should, therefore, assume a large share of user charges supporting the Highway Trust Fund.

Federal capital costs.—Over time, the Federal program will be shifting to more capital expenditures on existing roadways than on new facilities. Pavement resurfacing, restoration, rehabilitation, and reconstruction (4-R) costs were approximately 25 percent of Federal Trust Fund obligations in the base period (1976–1978), but it is estimated that 39 percent of the Federal capital requirements in the 1980's will be pavement 4-R (see Table IV-9). Heavier trucks are found to have a larger responsibility for pavement expenditures than for all other kinds of capital outlays (see Table V-4).

Nonuser financing of highways.—A basic premise is that the Highway Trust Fund should be financed purely from user contributions, not those of nonusers as would be the case with any General Fund transfers. The legislative language authorizing this study calls for users to pay for all the costs financed through the Trust Fund. Nonetheless, an investigation[2] was made of the portions of expenditures for highway purposes, made in aggregate by all levels of government, that nonusers could reasonably be asked to finance. This amount was then compared to the portion actually paid. The results (see Table I-1) show that in 1977 nonusers paid 24.0 percent of expenditures for highway purposes and owed between 7.3 and 38.7 percent, depending on whether they ought to be charged for the costs of the property access function afforded by highway improvements. The 38.7 percent is the average for all roadways; for higher type roadways the percent is much lower. Since the arguments for assigning the costs of property access to nonusers are weak, nonuser cost responsbilities identified are subject to many other qualifications.

RECOMMENDED METHOD TO ALLOCATE FEDERAL HIGHWAY COSTS

The incremental method of cost allocation[3] used in the last major Federal cost allocation study[4] did not account for pavement 4-R costs. As applied then, the method was based on the design differences in new facilities to accommodate larger vehicles. Even for new facilities, the method did not fairly distribute pavement costs among vehicle classes. This was recognized by the Congressional Budget Office (CBO) in its Guidelines[5] for this study, suggesting that DOT use cost allocation methods more appropriate for the present since the emphasis for capital expenditures is shifting from new facilities to existing facilities. In the 1950's, by contrast, the emphasis was on initiating the Interstate system, and the incremental method had a certain equitable appeal.

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[1] For a full description of cost allocation methods, see Chapter IV and Appendix D.

[2] See Appendix F for report on the investigation.

[3] See Chapters IV and V and Appendix D for a discussion of this method.

[4] The study was conducted between 1956 and 1965 with major reports to Congress in 1961 and 1965. See the beginning of Capter II for a more detailed discussion.

[5] U.S. Congress, Congressional Budget Office, Guidelines for a Study of Highway Cost Allocation (Washington, DC, 1979).

The recommended overall cost allocation approach consists of an improved and in some cases substantially altered version of the incremental method for new facility costs and newly developed cost-occasioned methods for rehabilitation and reconstruction cost on existing facilities. The method used allocates projected governmental expenditures; economic costs are considered in developing the recommended user charge structure.

TABLE I-1.—1977 NONUSER REVENUES FOR HIGHWAY PURPOSES COMPARED TO COST RESPONSIBILITIES AGGREGATED FOR ALL LEVELS OF GOVERNMENT [1]

[Dollars in millions]

	User share		Nonuser share	
	Dollars	Percent	Dollars	Percent
Revenues contributed, as adjusted for cross subsidies	26,704	76.0	8,429	24.0
Cost responsibility, assuming property access costs are assigned to nonusers	18,974	61.3	11,850	38.7
Cost responsibility, assuming property access costs are not assigned to nonusers	28,399	92.7	2,245	7.3

[1] See appendix F for the sources and derivation of this data.

Pavement costs.—The cost of new pavements is assigned to vehicle classes by a method in which the American Association of State Highway and Transportation Officials (AASHTO) recommended minimum thickness of a new pavement structure is considered a residual cost shared by all vehicle classes. The extra thickness to accommodate traffic loading is assigned to all vehicle classes by the AASHTO design parameter, equivalent single axle load (ESAL) (the factor used by highway agencies to determine the overall pavement thickness required for a new roadway). This recommended method eliminates the problem of the unfair assignment of the economies of scale in pavement cost/thickness that exists in the so-called incremental method.

Pavement 4-R costs are assigned to vehicle classes based on the different types of pavement distresses attributable to each vehicle class and on how important each type of distress is to the decision process for capital outlays. Research conducted for the HCAS to synthesize the knowledge and data base on pavement damage has shown that most pavement distress is an interactive phenomenon, the environment and axle loads working together. The pavement distress relationships developed for the study take that into account.[1]

Contrary to some criticisms of treating rehabilitation costs and new facility costs separately, there is no "double-charging" of pavement costs. The costs that are assigned are estimates of future pavement capital outlays, both for new pavement and for 4-R. Each category of expenditures is allocated only once. The cost of a facility is not charged for and an additional damage charge for that facility added to it. Rather, the estimated costs of new facilities are assigned based on design thickness criteria, and the estimate of outlays of existing facilities are assigned based on distress functions.

The methodology used in the HCAS for pavement costs resembles the approaches being used in most of the recent State cost allocation studies. Pavement 4-R costs were allocated in those studies by some form of damage or consumption approach. Such an approach is also consistent with methods used in several foreign countries, including England, New Zealand, and France, and with the recommended methods of the Council of the European Communities and the policy documents of the European Conference of Ministers of Transport.[2]

Structure costs.—The cost of new structures is allocated based on the incremental strength method. The cost of replaced structures uses the incremental method, with the cost of each increment partially assigned in proportion to the degree to which the replaced structure had deficient load-bearing capacity. The cost of rehabilitating existing bridges (e.g., deck replacement) is considered a residual cost because it is felt that there is only preliminary evidence to show that traffic loading has an influence on the rate of bridge deck deterioration. Also, while traffic loading causes certain fatigue-prone structural members to fail, the overall repair costs associated with this fatigue are not that significant. Treating bridge repair costs as residual costs, rather than an occasioned attributable cost, in all likelihood understates the cost responsibility for heavy vehicles. Future research may improve the ability to relate rehabilitation costs to various vehicle groups.

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[1] See Chapter IV and Appendix D for a full discussion of the method.

[2] See the footnotes citing the State and foreign reports in the pavement section of Chapter IV.

Geometric features.—The recommended cost allocation approach assigns a portion of the lane-width cost to vehicles on the basis of vehicle width and a portion of grading costs on the basis of the weight to horsepower ratio of each vehicle class. The approaches are incremental methods similar to those used in the original Federal study, but further refined.

Residual costs.—The remaining costs not clearly attributable to particular vehicle groups are called residual or common costs. The selection of allocators, or factors used for allocating residual costs among vehicles in a group, is somewhat arbitrary. However, a use-related measure is the fairest method for an equity-based, cost-occasioning cost allocation process, since in both the short- and long-run most highway costs are a direct result of traffic and the need to serve that traffic. The original Federal study used axle-miles of travel to assign residual pavement costs and vehicle miles of travel (VMT) to assign all other residual costs. The recommended approach in this study uses vehicle miles of travel. Since passenger car equivalents (PCE's) are a measure of each vehicle's relative need for service capacity (i.e., ability to serve traffic and still maintain reasonable operating speed), PCE-weighted vehicle miles are a logical allocator.

PCE's were not used for residual cost allocation because of several gaps in information needed for their proper use. In a given highway corridor, the needed capacity varies by time of day and day of week. A straight weighting of vehicle miles by PCE's incorrectly assigns costs to some extent whenever the traffic composition varies. In many cases, trucks compose a smaller proportion of traffic in peak hours than during other hours and would thus be overcharged by such a simple weighting. The decision not to weight vehicle miles by PCE's is based on insufficient knowledge of: (1) the composition of traffic streams by hour of travel; and (2) the relative importance of peak-hour versus other traffic in each State's decision to provide or maintain capacity.

The effect of using VMT for all residual costs are compared with using PCE weighted VMT for capacity related residual costs and VMT for other residual costs is minimal. Using VMT for all residual costs reduces the total cost assigned to combination trucks from 34.6 percent of total costs to 33.2 percent (see Table V–7). The research studies conducted as part of this study on PCE's have shown that their values are much lower than heretofore presumed. This accounts for the limited sensitivity of their use in the cost allocation results.

Total cost assignment.—Of the total future period capital costs, attributable costs represent 53.3 percent of total costs in the forecast period. Autos/motorcycles are found to be responsible for 16.8 percent of the forecast period attributable costs, while combination vehicles are responsible for 56.9 percent of the attributable costs (see Table 1–2).

Residual costs are estimated at 46.7 percent of total costs in the forecast period, with autos/motorcycles allocated 67.1 percent of residual costs and combination vehicles allocated 6.1 percent of residual costs (see Table I–3).

Autos/motorcycles are found to be responsible for 40.3 percent of total forecast period costs, with combination trucks responsible for 33.2 percent of total Federal capital costs (see Table I–4). For the forecast period, 78 percent of the auto/motorcycle assigned costs are residual costs and 22 percent of their assigned costs are attributable costs. For combination trucks, only 8 percent of their assigned costs are residual costs and 92 percent of their assigned costs are attributable costs.

TABLE I–2.—SHARES OF ATTRIBUTABLE COSTS BY VEHICLE CLASS

	Base period		Forecast period	
	Percent share	Percent share of total costs	Percent share	Percent share of total costs
Autos/motorcycles	21.5	9.5	16.8	8.9
Buses	2.4	1.1	2.1	1.1
Pickups/vans	9.1	4.0	12.5	6.7

TABLE I-2.—SHARES OF ATTRIBUTABLE COSTS BY VEHICLE CLASS—Continued

	Base period		Forecast period	
	Percent share	Percent share of total costs	Percent share	Percent share of total costs
Other single unit trucks	11.9	5.3	11.7	6.2
Combination trucks	55.1	24.4	56.9	30.4
Total	100.0	44.3	100.0	53.3

TABLE I-3.—SHARES OF RESIDUAL COSTS BY VEHICLE CLASS

	Base period		Forecast period	
	Percent share	Percent share of total costs	Percent share	Percent share of total costs
Autos/motorcycles	74.1	41.3	67.1	31.3
Buses	0.4	0.2	0.3	0.2
Pickups/vans	16.4	9.1	22.9	10.7
Other single unit trucks	3.8	2.1	3.6	1.7
Combination trucks	5.3	3.0	6.1	2.8
Total	100.0	55.7	100.0	46.7

TABLE I-4.—SHARES OF TOTAL FEDERAL CAPITAL COSTS BY VEHICLE CLASS

	Base period	Forecast period
Autos/motorcycles	50.8	40.3
Buses	1.3	1.3
Pickups/vans	13.1	17.3
Other single unit trucks	7.4	7.9
Combination trucks	27.4	33.2
Total	100.0	100.0

CURRENT USER CHARGE STRUCTURE

The annual user charges per vehicle for the base period (1976–78) and the forecast year (1985) are shown in Table I-5. The distribution of receipts by vehicle class is shown in Table I-6. Autos are decreasing their annual user charge payments and trucks are increasing theirs. This is primarily because the user charge structure relies heavily on fuel taxes, and auto fuel efficiencies are improving at a faster rate than truck fuel efficiencies. In addition, the truck sales taxes are ad-valorem taxes, and the receipts rise with inflation.

The ratios of revenue paid to costs assigned by vehicle class are shown in Table I-7. A ratio of less than 1.0 indicates underpayment and a ratio of greater than 1.0 indicates overpayment. The heavier single unit trucks are found to significantly overpay relative to other vehicles. This is true even under the incremental cost assignment method as shown in Chapter V. Combination trucks are found to underpay relative to other vehicles. Heavier combination trucks significantly underpay while the lighter combination trucks overpay.

The above results might be expected because of the nature of the current tax structure and the fact that pavement 4-R costs are such a large share of total capital costs. The excise tax on new trucks is a flat 10 percent of the price on all trucks greater than 10,000 pounds gross vehicle weight (GVW). The truck parts and accessories tax on all trucks is a flat 8 percent of the price. The highway use tax is a flat $3 per thousand pounds of GVW for all trucks over 26,000 pounds. The truck user charges are not graduated by weight, whereas cost assignments increase with weight due to the nature of the costs occasioned by increasing the size and weight of vehicles.

Of particular note are the findings for buses. In 1985, intercity buses will underpay relative to 1977 since most of their user charges were dropped in the 1978 Energy Tax Act (Public Law 95-618). The other bus category includes a large number of State and local government vehicles that are exempt from highway user charges.

Large autos overpay relative to small autos because their cost assignments per vehicle mile are virtually the same. However, the fuel efficiency of small autos is much greater than that of large autos.

As shown in Table I-5, the typical automobile pays a very small annual dollar amount to the Trust Fund while combination trucks, which travel about 500 percent more annual miles per vehicle, pay significantly more to the Trust Fund. Combination trucks represent only about 1 percent of the total vehicles so that for every $100 per vehicle shift in the tax burden to combination trucks, there is only a $1 average reduction in the annual user charges for other vehicles.

TABLE I-5.—ANNUAL FEDERAL USER CHARGE PAYMENTS PER VEHICLE UNDER CURRENT USER CHARGES [1]

[In dollars]

	1977	1985
Autos	$37	$25
Large	40	31
Small	23	18
Motorcycles	3	3
Buses	86	6
Intercity	1,015	145
Other	46	0
Pickups/vans	49	40
Toal passenger vehicles	38	27
Other single unit trucks	175	253
Less than 26,000 GVW	105	132
Greater than 26,000 GVW	405	554
Combination trucks	1,057	1,411
Less than 50,000 GVW	569	798
50,000-70,000 GVW	889	1,292
70,000-75,000 GVW	1,331	1,663
Greater than 75,000 GVW	1,452	1,819
Total trucks	347	522
All vehicles	50	46

[1] Rounded up to the nearest dollar.

TABLE I-6.—DISTRIBUTION OF FEDERAL USER CHARGE RECEIPTS BY VEHICLE CLASS UNDER THE CURRENT CHARGE STRUCTURE

[In percent]

	1977	1985
Autos	55.6	38.7
Large	48.4	27.1
Small	7.2	11.6
Motorcycles	0.2	0.3
Buses	.6	.04
Intercity	.3	.04
Other	.3	0
Pickups/vans	16.2	18.8
Total passenger vehicles	72.6	57.8
Other single unit trucks	11.1	15.7
Less than 26,000 GVW	5.1	5.8
Greater than 26,000 GVW	6.0	9.9

TABLE I-6.—DISTRIBUTION OF FEDERAL USER CHARGE RECEIPTS BY VEHICLE CLASS UNDER THE CURRENT CHARGE STRUCTURE—Continued

[In percent]

	1977	1985
Combination trucks	16.3	26.5
Less than 50,000 GVW	2.1	3.4
50,000-70,000 GVW	3.9	6.5
70,000-75,000 GVW	4.5	7.2
Greater than 75,000 GVW	5.8	9.4
Total trucks	27.4	42.2
All vehicles	100.0	100.0

TABLE I-7.—RATIOS OF USER CHARGES TO ALLOCATED COSTS BY VEHICLE CLASS UNDER CURRENT USER CHARGE STRUCTURE

	1977	1985
Autos	1.1	1.0
Large	1.2	1.2
Small	0.7	0.7
Motorcycles	.5	.6
Buses	.5	0
Intercity	1.2	.2
Other	.3	0
Pickups/vans	1.2	1.1
Total passenger vehicles	1.1	1.0
Other single unit trucks	1.5	2.0
Less than 26,000 GVW	1.3	1.7
Greater than 26,000 GVW	1.7	2.2
Combination trucks	.6	.8
Less than 50,000 GVW	.8	1.2
50,000-70,000 GVW	.9	1.3
70,000-75,000 GVW	.6	.8
Greater than 75,000 GVW	.5	.6
Total trucks	.8	1.0
All vehicles	1.0	1.0

RECOMMENDED MODIFICATIONS

Alternative structures.—Alternative user charge structures were developed that would match the user charge payments per vehicle class as nearly as possible to the recommended cost allocation results. Table I-8 illustrates the target payments that the alternative user charge structures were designed to meet.

Six alternative 1985 user charge structures were tested including the current user charge stucture (see Table I-9). Alternative 1 is the present user charge structure, Alternatives 2A, 2B, 2C, and 2D are examples of fair and feasible options that eliminate existing unwarranted exemptions, and Alternative 3 is an example of a feasible and reasonably fair option that retains existing exemptions.

RECOMMENDED CHANGES IN THE STRUCTURE

Simplification.—To the degree possible, the user charge structure should be simplified. With that in mind, consideration should be given to dropping the excise taxes on lubricating oil and tire tubes. The equity of the user charge structure would not be affected and revenue losses can be recovered through the other excises.

Threshold weight point.—The sales tax on new trucks currently applies to all trucks rated over 10,000 pounds gross weight. The tax on truck parts and accessories is applied to all trucks regardless of weight. It is recommended that consideration be given to removing these taxes from lighter trucks. This would both aid the economically depressed automotive industry and make the overall user charge structure more equitable.

Piggyback trailers.—Consideration should be given to relieving truck trailers that are manufactured for use as piggyback trailers (trailers transported by rail for the linehaul portion of trips) of the new truck excise tax.

Annual heavy vehicle use tax.—The current annual use tax is $3 per thousand pounds of gross vehicle weight. Since this user charge can make a major contribution to ensuring that heavy vehicles pay their cost responsibility, it is recommended that the rates be graduated as a function of weight rather than remaining constant across all weights. In addition, this user charge should be assessed directly on vehicles' registered gross weight rather than continuing the present indirect relationship between a vehicle's assessment and its gross registered weight.

TABLE 1-8.—1985 USER CHARGES PER VEHICLE

[In dollars]

	Total current user charges (1)	Cost [1] assignments per vehicle (2)	Percentage [2] difference (3)
Autos	$25	$26	0
Large	31	27	−13
Small	18	25	39
Motorcycles	3	5	67
Buses	6	191	3,083
Intercity	145	948	554
Other	0	159	....
Pickups/vans	40	37	−8
Total passenger vehicles	27	28	4
Other single unit trucks	253	128	−49
Less than 26,000 GVW	132	78	−41
Greater than 26,000 GVW	554	252	−55
Combination trucks	1,411	1,778	26
Less than 50,000 GVW	798	651	−18
50,000-70,000 GVW	1,292	1,041	−19
70,000-75,000 GVW	1,633	2,115	30
Greater than 75,000 GVW	1,819	3,101	70
Total trucks	522	511	−2
All vehicles	46	46	0

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[1] The cost assignments represent the amount of annual revenue that each vehicle should contribute in 1985 under a revised user charge structure if the revised structure were intended to raise the same total amount of money as the present structure.

[2] The percentage difference compares Column 2 to Column 1. Though derived at the $7.3 billion level of annual revenue, these percentages would apply to any two user charge structures if (a) both raised the same amount; and (b) one raised revenues in the same proportions as present user charges while the other raised revenues in the same proportions as assigned costs.

Table I-9
User Charge Alternatives
(Per Billion Dollars of 1985 Federal Highway Program Expenditures) 1/

Alternatives	Gasoline (cents/gallons)	Diesel and Special Fuels (cents/gallons)	Lubricating Oil (cents/gallons)	Tires (cents/lb.)	Inner Tubes (cents/lb.)	Tread Rubber (cents/lb.)	New Vehicles (% manufacturers' sale price)	Parts & Accessories (% manufacturers' sale price)	Heavy Vehicle Use 2/ 3/ ($/1,000 lbs. GVW)
Alternative 1 (same structure as under present law)	.35¢	.35¢	.83¢	1.31¢	1.17¢	.68¢	1.37%; SU 2/ trucks, tractors, and trailers >10,000 lbs. GVW	1.09%, all SU trucks, tractors, and trailers	SU trucks, combinations, and intercity buses >26,000 lbs. GVW: $.41
Alternative 2A	.4¢	.8¢	0	0 - 30 lbs., .36¢ >30 ≤ 100, 1.0¢ >100, 2.0¢	0	2¢	.35%; SU trucks, tractors, and trailers >33,000 lbs. GVW .35%; buses >28,000 lbs. GVW	.35%, all vehicles >33,000 lbs. GVW	All vehicles: >60≤70,000 lbs. GVW $.84 >70≤75 $2.70 >75 $3.93
Alternative 2B	.4¢	.6¢	0	0 - 30 lbs., .43¢ >30 ≤ 100, 1.3¢ >100, 3.0¢	0	3¢	.65%; SU trucks, tractors, and trailers >33,000 lbs. GVW .7%; bus >28,000 lbs. GVW	.65%, all vehicles >33,000 lbs. GVW	All vehicles: >60≤70,000 lbs. GVW $1.0 >70≤75 $2.79 >75 $4.05
Alternative 2C	.39¢	.8¢	0	0 - 30 lbs., .5¢ >30 ≤ 100, 1.0¢ >100, 2.0¢	0	2¢	.8%; tractors >33,000 lbs. GVW .8%; buses >28,000 lbs. GVW.	0	All vehicles: >55≤70,000 lbs. GVW $1.18 >70≤75 $2.83 >75 $4.44
Alternative 2D	.4¢	2.5¢ with rebates: vehicle class — rebate amount 3/ ● autos, pickups, and vans, SU trucks <26,000 lbs. GVW, combinations <50,000 lbs. GVW — 1.4¢ ● buses, combinations >50≤70,000 lbs. GVW — 1.3¢ ● SU trucks >26,000 lbs. GVW — .93¢ ● combinations >70≤75,000 lbs. GVW — .73¢	0	0 - 30 lbs., .7¢ >30 ≤ 100, 1.8¢ >100, 2.5¢	0	2.5¢	1%; tractors >33,000 lbs GVW	0	0
Alternative 3	.4¢	.8¢	0	0 - 30 lbs., 1.0¢ >30 ≤ 100, 2.0¢ >100, 3.0¢	0	3¢	.83%; SU trucks, tractors, and trailers >33,000 lbs. GVW	.83%; SU trucks, tractors, and trailers >33,000 lbs GVW	SU trucks, combinations, and intercity buses >60≤70,000 lbs. GVW $.18 >70≤75 $1.06 >75 $3.61

1/ Tax rates are those required to make each alternative yield $1 billion annually in 1985. To convert to actual tax rates, multiply the amounts by the number of billions in 1985 Federal highway programs.

2/ SU stands for single unit.

3/ The graduated rates by vehicle weight listed are averages for the weight groups. In practice, the rates could be more smoothly graduated by weight.

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In order to achieve equity and to simplify administration of the tax, it is recommended that consideration be given to eliminating the charge from lighter trucks.

Motor fuels.—Consideration should be given to imposing a higher tax rate on diesel fuel than on gasoline since diesel powered vehicles have greater fuel efficiency and therefore contribute less revenue per mile of travel than gasoline powered vehicles.

A very high diesel tax, possibly with rebates for lighter vehicles, could also be used, in lieu of the annual heavy vehicle use tax, to charge heavy vehicles their cost responsibility.

INCIDENCE OF THE USER CHARGES

The Department of the Treasury is examining the issue of whether any of the excise taxes currently levied at the manufacturer level should be shifted to the retail level in order to ease the paperwork and financial carrying cost burden on wholesalers and distributors. The Treasury will give recommendations on this issue in the Section 507 Final Report.

As an alternative, the Department of the Treasury is also assessing the option of deferring payments for the taxes on new trucks and truck parts and on tires for a given number of months so as to account for the fact that it takes a considerable period of time for the manufactured products to move through the sales chain to the ultimate purchaser. This would alleviate the financial carrying costs on the distributors and retailers.

STATE ADMINISTRATION OF THE HIGHWAY USE TAX

The highway use tax is very difficult for the Internal Revenue Service (IRS) to administer. This is because it is a user charge collected from individual truck owners, and the universe from which the tax is due is not readily known. Administratively, the annual highway use tax is similar to the State vehicle registration fee, and the process could be greatly facilitated if the States were to aid in compliance. Possibilities include having States agree to: (1) notify the IRS when a heavy truck is registered so that the IRS knows on which vehicles the Federal tax is due; (2) refuse to register a vehicle if proof is not given that the Federal user charge has been paid; or (3) actually collect the Federal fee and submit, less collection costs, the proceeds to the Federal government. All of these options are presently being examined in conjunction with the American Association of Motor Vehicle Administrators.

IMPACTS OF CHANGES TO THE CURRENT USER CHARGE STRUCTURE

In order to meet the cost allocation findings, user charges would need to shift the most among the heaviest combination vehicles and the single unit trucks (other than vans and pickups). The ratios of revenues to cost responsibilities of user charge Alternatives 2A, 2B, 2C, and 2D are vastly improved over the ratios under current structure represented by Alternative 1 (see Table I-10). Alternative 1 shows automobiles and light trucks paying about their fair share, buses greatly underpaying, single-unit trucks paying twice as much as they should, and the heaviest combinations paying only about 60 percent of what they owe. In contrast, the remaining alternatives for each of the major vehicle classes pays very nearly its fair share of cost. The exception is motorcycles for each alternative and buses under Alternative 3. Buses greatly underpay in Alternative 3 because they are assumed to continue to enjoy their exemption from most user charges.

Despite the fact that vehicle classes in aggregate would pay close to their fair share under the revamped user charge structures analyzed, many individual vehicles, especially heavy vehicles, would continue to pay much more or less than they should because many of the present and alternative user charges imposed on the heavier vehicles are not directly related to the amount of travel by those vehicles. This inequity is present for each alternative analyzed but least so for Alternative 2D. User charge structures that would eliminate the inequity are not now feasible at the Federal level.

An important consideration with the alternative user charge structures is the reduction in the number of vehicles subject to certain user charges (see Table I-11). The reductions should greatly aid in reducing the administrative burden for the IRS and assist the manufacturing industry economically as less vehicles will be subject to the sales tax.

A fundamental measure of impact is the change in vehicular ownership and operating costs that would occur from the imposition of restructured user charges. These changes depend on both the redistribution of tax burden inherent in the user charge structure and the overall amount of money raised by the structure. It is not possible to express simply these impacts per $1 billion dollars raised by each user charge alternative. Accordingly, a $10 billion annual program is hypothesized for illustration purposes only. Changes in vehicle costs are measured for the $10 billion level in comparison with the vehicle costs that would be incurred if the present user charge structure and rates obtained in 1985. The present user charge structure and rates would yield an estimated $7.3 billion in 1985.

TABLE I–10.—RATIOS OF USER CHARGE PAYMENTS TO COST RESPONSIBILITIES FOR CURRENT AND ALTERNATIVE USER CHARGE STRUCTURES BY VEHICLE CLASS IN 1985

	Current user charges [1]	Alternatives				
		2A	2B	2C	2D	3
Autos	0.97	1.00	1.01	1.00	1.00	1.02
Large	1.16	1.18	1.19	1.18	1.18	1.22
Small	.71	.75	.74	.74	.75	.74
Motorcycles	.58	.50	.50	.52	.48	.54
Buses	.04	.93	.99	1.00	1.00	.02
Intercity	.15	1.04	1.19	.92	1.00	.12
Other	.00	.90	.94	1.02	1.00	.00
Pickups/vans	1.08	1.02	1.03	1.02	1.01	1.06
Total passenger vehicles	.98	1.00	1.01	1.00	1.00	1.01
Other single unit trucks	1.99	1.01	1.01	1.01	1.01	1.00
Less than 26,000 GVW	1.71	1.08	1.08	1.07	1.13	.95
Greater than 26,000 GVW	2.21	.96	.96	.97	.91	1.04
Combination trucks	.80	.99	.99	.99	1.00	1.00
Less than 50,000 GVW	1.24	.84	.81	.90	.99	.97
50,000–70,000 GVW	1.25	1.00	1.02	1.00	1.03	1.00
70,000–75,000 GVW	.78	1.00	1.00	1.00	1.00	1.00
Greater than 75,000 GVW	.59	1.00	1.01	1.00	1.00	1.00
Total trucks	1.03	.99	.99	1.00	1.00	1.00
All vehicles	1.00	1.00	1.00	1.00	1.00	1.00

[1] Same as user charge Alternative 1 described in Table I–9.

TABLE I–11.—CHANGE IN NUMBER OF VEHICLES SUBJECT TO USER CHARGES BY USER CHARGE ALTERNATIVE IN 1985

	Number of vehicles subject to present user charges in 1985 (1,000 vehicles)	Percentage change by alternative compared to column 1					
		1 [1]	2A	2B	2C	2D	3
User Charge:							
Fuel	156,779.6	0.0	2.4	2.4	2.4	2.4	0.0
Lubricating oil	156,779.6	.0	−100.0	−100.0	−100.0	−100.0	−100.0
Tires and tread rubber	156,779.6	.0	2.4	2.4	2.4	2.4	0.0
Inner tubes	890.2	.0	−100.0	−100.0	−100.0	−100.0	−100.0
New trucks, buses [2]	356.9	.0	−34.2	−34.2	−47.7	−49.3	−40.7
New trailers [2]	239.8	.0	4.8	4.8	−100.0	−100.0	−1.0
Parts and accessories	39,100.9	.0	−95.4	−95.4	−100.0	−100.0	−95.9
Heavy vehicle use	2,372.4	.0	−60.5	−60.5	−24.0	−100.0	−63.0

[1] Same structure as present user charges.

[2] These charges apply only to new vehicle sales. The other user charges apply to vehicles in use.

Under these assumptions, the changes in vehicle costs are given in Table I–12 for the six alternatives analyzed. The impacts for Alternative 1 are not zero even though it shares the same structure as present user charges because the rates were increased to yield $10 billion annually in 1985. The impacts for Alternatives 2A, 2B, 2C, and 2D are essentially the same for each alternative. They would, for example, increase automobile costs about .2 percent, increase bus costs .6 percent, decrease single-unit truck costs about .4 percent, and increase costs for the heaviest combinations about 3.3 percent. Alternative 3 would have a similar impact except for bus costs, which would not change from the base case.

The vehicle cost changes reported in Table VI-12 are due to both the redistribution of user charge burden among the vehicle classes and the higher level of overall revenues assumed for the user charge alternatives in comparison with the base case. The cost changes due solely to the redistribution of the burden can be computed by subtracting the cost changes due to Alternative 1, which is identical in structure to the present user charges, from the cost changes due to the other alternatives. For the heaviest combination trucks, this subtraction reveals that 2.3-2.4 percent of the 3.3-3.4 percentage rise in vehicle costs at the $10 billion revenue level are due to the redistribution effect. The remaining 1 percent is due to the hypothesized rise in annual revenues from $7.3 to $10 billion.

The effect on total firm operating revenue, however, is much lower than the percentages shown in Table I-12. (See Table I-13) For trucking firms that haul freight, the effect on total revenues is only 27 percent of the effect on vehicle costs.

RECOMMENDATIONS ON EXEMPTIONS

As discussed in Chapter VI, some exemptions to the user charge structure are warranted on cost allocation grounds. For example, light weight trucks are exempt from certain excise taxes. This is consistent with cost allocation findings.

Most exemptions, however, are not warranted by cost allocation criteria. As shown in Table I-14, many exemptions in the user charge structure impose a significant revenue loss to the Trust Fund and are not warranted from a cost allocation equity perspective. The exemption for vehicles owned by State and local governments is by far the largest of these.

TABLE I-12.—PERCENTAGE CHANGE IN THE ANNUAL COST OF OWNING AND OPERATING VEHICLES IN 1985 BY USER CHARGE ALTERNATIVE COMPARED TO COSTS UNDER THE CURRENT USER CHARGE STRUCTURE AND RATES IN 1985 [1] [2]

	Alternatives		
	1	2A, 2B, 2C, 2D [3]	3
Autos	0.2	0.2	0.2
Large	0.2	0.2	0.2
Small	0.1	0.2	0.2
Motorcycles	0.2	0.2	0.2
Buses	0.0	0.6	0.0
Intercity	0.1	1.4	0.1
Other	0.0	0.5	0.0
Pickups/vans	0.3	0.2	0.2
Total passenger vehicles	0.2	0.2	0.2
Other single-unit trucks	0.6	−0.4	−0.4
Less than 26,000 GVW	0.5	0.0	−0.3
Greater than 26,000 GVW	0.7	−0.7	−0.5
Combination trucks	1.0	1.8	1.9
Less than 50,000 GVW	1.0	−0.1	0.2
50,000–70,000 GVW	1.1	0.3	0.3
70,000–75,000 GVW	1.0	2.0	2.0
Greater than 75,000 GVW	1.0	3.3	3.4
Total trucks	0.8	0.7	0.7
All vehicles	0.3	0.3	0.3

[1] Excluded are all driver labor costs, terminal costs, overhead costs, and profits that are associated with the use of many vehicles. The percentage change in total motor vehicle transportation service costs would, therefore, be much less.

[2] Each user charge alternative is assumed to raise $10 billion annually in 1985. The current user charge structure, to which the alternatives are compared, would raise $7.3 billion in 1985.

[3] Average percentage charges for the four alternatives, 2A, 2B, 2C, and 2D, are shown. The percentages for each alternative are very close to the average for the four.

TABLE I-13.—*Vehicle ownership and operating cost as a percentage of total revenue (1985)*

	Percent
Freight trucking firms	27
Rental/lease firms	75
Taxis	45
Intercity buses	48

TABLE I-14.—*Estimated loss in revenues in 1985 under the current user charge structure due to certain exemptions*

	Millions
State and local government and nonprofit educational vehicles	$(544)
Transit buses	89
Other buses	85
Other vehicles	370
Intercity buses	32
Other private buses	67
Gasohol [1]	116
Federal trucks and buses' exemption from annual highway use tax	1
Fuel efficient taxicabs [2]	[3] 0
Total	760

[1] Exemption ends Dec. 31, 1992.
[2] Exemption ends Dec. 31, 1992.
[3] Loss is estimated at $4 million in 1982.

The taxicab exemption ends at the end of 1982 and the one for gasohol at the end of 1992. The Administration is currently re-examining the gasohol exemption and is considering its phase-out.[1] With the exception of the gasohol and taxicab provisions, the current exemptions have no termination dates while Trust Fund taxes are slated to change rates or cease at the end of fiscal year 1984. The imposition of exemption expiration dates coincident with the dates of the taxes themselves would require the Congress to decide explicitly whether exemptions should be continued. Under present law, the exemptions automatically continue when the taxes themselves are extended.

It is recommended that Congress evaluate all exemptions to see whether or not they should be continued. At the very least, the exemptions should have expiration dates established in the tax code that are coincident with the expiration dates of the Trust Fund user charges.

It is recommended that the present 2 cent exemption from the fuels taxes for fuel consumed by off-highway business use be examined to see if it should be extended to the full level of the tax since there is no highway cost associated with such fuel use.

The Department of the Treasury is examining the issue of whether any exemptions ought to be changed to a form of tax credit or refund to better monitor the proper use of the exemption. The Treasury will report on this in the Section 507 Final Report.

LONG-TERM ROADWAY MONITORING

In response to the Section 506 request to investigate the need for long-term roadway deterioration monitoring, the HCAS has found that the information collected by the States over the years is not fully adequate to develop comprehensive pavement damage functions and to revise the equivalent axle load factors (describing the relative differences in axle weight effects on pavement life and serviceability) developed nearly 20 years ago at the AASHO Road Test.

A pilot pavement effort has been launched, as described in Chapter VII, to determine the feasibility of monitoring existing roadways so as to better isolate the multiple causal factors involved in roadway deterioration. Under study at present are the need and feasibility of a pilot effort on structures.

The pilot pavement long-term monitoring effort will result in recommendations on how to best perform long-term monitoring to improve the pavement design and construction process, pavement investment and maintenance strategies, and cost allocation techniques.

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[1] U.S. Department of the Treasury, "General and Technical Explanations of Tax Revisions and Improved Collection and Enforcement Proposals," Press Release, February 26, 1982.

CONTINUING USER CHARGE ASSESSMENTS

On a continuing basis DOT will refine and improve the causal cost relationships, particularly for pavement costs. The Department of the Treasury will closely monitor the compliance levels associated with the annual highway use tax. Both agencies will continue to explore new user charge instruments that are both equitable and efficient.

Chairman ROSTENKOWSKI. The Chair calls the Honorable John Chapoton, Assistant Secretary of the Treasury for Tax Policy. Welcome to the committee, Mr. Secretary. It is always nice to have you with us. I am sure that it will be much more enjoyable working together on legislation.

Mr. Secretary, the committee is ready to receive your testimony. I am sure that the committee will have some questions when you conclude.

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Mr. CHAPOTON. Thank you, Mr. Chairman. I will be quite brief.

First I want to say that I am pleased to be here today on behalf of the administration and the Treasury Department to discuss these proposals to increase the taxes—the excise taxes that go into the highway trust funds—and the proposals for restructuring these taxes.

From the Treasury's standpoint, we strongly support reliance on user taxes to finance the Federal highway program costs. Reliance on user taxes to finance particular Federal programs, such as highways and airports, is fair because costs of the program are then paid by the beneficiaries of the service rather than by the general taxpaying public.

By forcing highway users to confront the costs resulting from their use of the highway system, highway user taxes promote an economically rational use of the highway system and contribute to rational choices between highways and other methods of transportation.

I want to just cover a couple of points on the restructuring, describe in very brief terms the restructuring proposals, and a few administrative points of which we think the committee should be acutely aware.

The administration's proposals for restructuring the highway excise taxes reflect the conclusions from the studies undertaken by Treasury and Transportation in response to a congressional mandate contained in the Surface Transportation Assistance Act of 1978. The proposals are designed to promote a more equitable distribution of the burden of highway excise taxes among user classes, and at the same time to reduce the compliance burden on taxpayers and the cost of administration to the Internal Revenue Service.

The major conclusion of the Department of Transportation study on highway cost allocation is that, under the current tax structure, single-unit trucks and light combination trucks pay a tax share substantially exceeding their cost share, but the tax share of heavy combination trucks is significantly less than the relative cost they impose on the highway system.

Third, autos appear to pay a tax share roughly in line with their cost share, but their payment, their tax share, will decline below their cost share in future years under the current rate structure because the relative share of revenues raised by the fuel taxes will decline under that present structure.

The administration proposals are designed to redress these imbalances. The objectives would be accomplished by increasing the share of highway trust fund revenues raised by the motor fuels taxes and by restructuring other excise taxes so as to shift the tax burden from lighter to heavier vehicles.

There are three major parts to the restructuring proposals. First, the highway use tax imposed annually on heavy vehicles registered for highway use would be increased and graduated for the heaviest vehicles.

Second, the exemption for light weight vehicles from the manufacturers' excise taxes on trucks and on truck parts would be extended from the current 10,000-pound exemption to 33,000 gross vehicle weight, and the rate of tax would be increased from 10 to 12 percent in the case of trucks, and in the case of truck parts from 8 percent to 12 percent. The increased exemptions will eliminate excise tax liability for 76 percent of all trucks currently subject to the tax, and for 96 percent of the truck parts and accessories that are currently taxable.

The third restructuring change is that an exemption from the manufacturers' excise tax on tires would be provided for tires weighing less than 100 pounds, but the tax rates for those items remaining subject to the tax would be increased from 9.75 cents per pound to 25 cents per pound, for highway tires, and from 5 cents per pound to 25 cents per pound for tread rubber.

In addition to these changes, we are recommending the elimination of the Federal excise taxes on inner tubes and lubricating oil. These taxes are not needed to provide an equitable distribution of the tax shares among the user groups, and the lubricating oil tax in particular has been found to be excessively costly to administer relative to the amount of revenue collected.

I want to mention two administrative type changes. The most important, the most significant I think from the committee's standpoint is that we are proposing an increased State participation in enforcing the highway use tax. Under this proposal, States will not be eligible for Federal highway assistance unless they require taxable vehicles to show proof of payment of the Federal highway use tax before they can be registered. The effective date of this enforcement requirement would be postponed until January 1, 1985, to give States ample time to make the needed changes in their vehicle registration procedures.

The Treasury Department views this provision, or some alternative proposal to accomplish the same objective, as an essential component of any restructuring of the highway excise taxes that relies on the highway use tax as the primary method of ensuring that different types of vehicles pay taxes in proportion to the costs they impose on the highway system.

At the higher tax rates, noncompliance would be a more severe problem, and noncompliance in general would have a more severe adverse impact on trust fund revenues, on the competitive position of taxpayers who pay the tax, and on the equity of the tax structure. We therefore think it essential that the accompanying legislation include some mechanism to ensure State registration procedures be used as a tool in enforcement.

Finally, the proposal provides an exemption from the highway use tax for vehicles that drive less than 2,500 miles per year on public highways. This type of exemption is necessary to prevent imposing an excessive and unjustified tax on those vehicles, such as trucks used primarily in farming and logging, that are mostly used off the highway but do occasionally use public highways to bring products to market.

The Treasury Department believes that a flat mileage exemption is the best method from an administrative and enforcement standpoint of relieving low mileage vehicles from an excessive burden from the highway use tax.

Mr. Chairman, that concludes my summary of the statement we have presented, and I would be happy to answer any questions you might have about these or other points.

[The prepared statement follows:]

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY (TAX POLICY), DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss the Administration's proposals to increase and restructure the excise taxes currently dedicated to the Highway Trust Fund. The Administration has decided that increased Federal funding is needed at this time to maintain the quality of the nation's highway system. Therefore, it is appropriate that highway excise taxes be increased to finance these needed investments in the nation's public capital stock.

The Administration strongly supports reliance on user taxes to finance Federal highway program costs. Reliance on user taxes to finance particular Federal programs, such as highways and airports, is fair because costs of the program are then paid by the beneficiaries of the service rather than by the general taxpaying public. User taxes also promote economic efficiency by encouraging the best use of scarce productive resources. By forcing highway users to confront the costs resulting from their use of the highway system, highway user taxes promote an economically rational use of the highway system and contribute to rational choices between highways and other methods of transportation.

MOTOR FUELS TAXES

Under the Administration highway excise tax proposals, the tax rates applied to gasoline, diesel, and other highway motor fuels will increase from 4 cents per gallon to 9 cents per gallon. The present 2 cents per gallon tax on gasoline and other motor fuels used for non-highway purposes will be repealed. These changes in taxation of motor fuels will increase revenue to the Highway Trust Fund by $5.3 billion per year in Fiscal Year 1984.

The tax rate on gasoline and other motor fuels have been 4 cents per gallon since 1959. During that period, the price level, as measured by the GNP deflator, has more than tripled and the price of gasoline has increased by an even greater proportion. Thus, the gasoline tax has declined significantly both in real terms and as a percentage of the price of gasoline. Moreover, the reduction in fuel consumption induced by the large increases in fuel prices in the past decade has further contributed to the decline in real revenue from Federal motor fuel taxes.

Under the Administration's proposals, the tax burden per gallon of gasoline consumed, whether measured in real terms or as a proportion of the price of gasoline, will continue to remain significantly below the tax burden when the 4 cent rate was first imposed. For an average motorist driving 12,000 miles per year in an automobile with fuel consumption of 20 miles per gallon, the increased tax will raise the cost of driving by only $30 per year.

HIGHWAY EXCISE TAX STRUCTURE

The Administration's proposals also provide for a major restructuring of the highway excise taxes. These proposals reflect the conclusions from studies undertaken by the Departments of Treasury and Transportation on the highway excise tax structure, in response to a Congressional mandate contained in the Surface Transportation Assistance Act of 1978. The proposals are designed to promote a more equitable distribution of the burden of highway excise taxes among user classes, and at the same time reduce the compliance burden on taxpayers and the cost of administration to the Internal Revenue Service.

The Administration believes that the share of highway taxes paid by different highway users should be correlated with the share of costs each user imposes on the highway system. To the extent that some highway costs cannot be separately attributed among users, tax shares should correspond with the amount of benefit from highway use.

The major conclusion of the recently completed Department of Transportation study on highway cost allocation is that, under the current tax structure, single unit trucks and light combination trucks pay a tax share substantially exceeding their cost share, while the tax shares of heavy combination trucks are significantly less than the relative costs they impose on the highway system. Autos, pickups, and vans appear to pay taxes roughly in line with cost responsibilities.

RESTRUCTURING PROPOSALS

The Administration proposals are designed to redress these imbalances and to bring tax shares paid by different user classes more closely in line with cost shares for the remainder of this decade. These objectives are accomplished by increasing the share of Highway Trust Fund revenues raised by more fuels taxes and by restructuring other excise taxes so as to shift the tax burden from lighter to heavier vehicles.

There are three major parts to the restructuring proposals. First, the highway use tax imposed annually on heavy vehicles registered for highway use will be increased and graduated for the heaviest vehicles. The exemption from this tax will be increased from 26,000 pounds to 55,000 pounds, but the rates for vehicles over 55,000 pounds will be increased from the current rate of $3 per thousand pounds to $100 plus $6 per hundred pounds in excess of 55,000 pounds for vehicles between 55,000 and 70,000 pounds, $1,000 plus $17 per hundred pounds in excess of 70,000 pounds for vehicles between 70,000 and 80,000 pounds, and $2,700 for vehicles in excess of 80,000 pounds. Second, the exemption for light weight vehicles from the manufacturers' excise taxes on trucks and truck parts will be extended from the current 10,000 pound exemption to vehicles weighing less than 33,000 pounds, but the tax rates will increase from 10 percent to 12 percent on the truck sales tax and from 8 percent to 12 percent on the parts tax. This increase in the exemption will eliminate excise tax liability for 76 percent of all trucks and trailers currently subject to the tax and for 96 percent of the truck parts and accessories that are currently taxable. Third, an exemption from the manufacturers' excise tax on tires will be provided for tires weighing less than 100 pounds, but the tax rates for those items remaining subject to tax will increase from 9.75 cents per pound to 25 cents per pound for highway tires and from 5 cents per pound to 25 cents per pound for tread rubber.

In addition to these changes, we are recommending the elimination of Federal excise taxes on inner tubes and lubricating oil. These taxes are not needed to provide an equitable distribution of tax shares among user groups and the lubricating oil tax in particular has been found to be excessively costly to administer relative to the amount of revenue collected.

MODIFICATIONS TO IMPROVE USE TAX ADMINISTRATION AND EQUITY

The Administration's proposals also include two important modifications to the highway use tax designed to improve administration and increase equity. First, the highway spending proposal that accompanies this bill provides for increased state participation in enforcing the highway use tax. Under that proposal, states will not be eligible for Federal highway assistance unless they require that taxable vehicles show proof of payment of the Federal highway use tax before they can be registered. The effective date of this enforcement requirement will be January 1, 1985, leaving states ample time to make the needed changes in vehicle registration procedures. The Treasury Department views this provision, or some alternative proposal to accomplish the same objective, as an essential component of any restructuring of the highway excise taxes that relies on the highway use tax as the primary method of ensuring that different types of vehicles pay taxes in proportion to the costs they impose on the highway system. The Administration proposal will greatly reduce the number of vehicles subject to the highway use tax by exempting from the tax all vehicles with a gross vehicle weight under 55,000 pounds. At the same time, the tax will be significantly increased for the heaviest vehicles. For example, the annual tax imposed on the vehicles weighing 80,000 pounds would be increased from $240 to $2,700.[1] In the absence of improved enforcement procedures, these higher tax rates on the heaviest vehicles would greatly increase incentives for tax avoidance.

Moreover, at higher tax rates, non-compliance would have much more severe adverse effects on trust fund revenues, on the competitive position of taxpayers who pay the tax, and on the equity of the tax structure. For these reasons, the Treasury Department regards it as essential that accompanying legislation include some mechanism to assure that state registration procedures can be used as a tool in enforcement.

Second, the tax proposal provides an exemption from the highway use tax for vehicles that drive less than 2,500 miles per year on public highways. This type of exemption is necessary to prevent imposing an excessive and unjustified tax on those vehicles, such as trucks used primarily in farming or logging, that are mostly used off-highway but that do occasionally use public highways to bring products to markets. The Treasury Department believes that a flat mileage exemption is the best method from an administrative and enforcement standpoint of relieving low-mileage vehicles from an excessive burden under the highway use tax.

CONCLUSION

The proposals we are presenting will provide needed revenues to finance Federal highway programs, restructure the highway excise taxes to allocate the tax burden more equitably among user groups, and improve enforcement and reduce costs of compliance with the new tax structure. We urge their prompt enactment.

REVENUE EFFECT

[Dollars in millions]

	Fiscal years					
	1983	1984	1985	1986	1987	1988
Increase in excise tax receipts	2,628	5,417	5,310	5,244	5,279	5,389
Income tax offset	−657	−1,354	−1,327	−1,311	−1,320	−1,347
Net revenue increase	1,971	4,063	3,983	3,933	3,959	4,042

Chairman **Rostenkowski**. Thank you, Mr. Chapoton.

Mr. Chapoton, what are your estimates on the revenue effect of this proposal for 1983, 1984, and 1985. We have to consider the revenue effect on both the trust funds and the general fund resulting from higher tax deductions against the income tax.

What are your figures?

Mr. **Chapoton**. I think, Mr. Chairman, this is a subject that needs more attention in the sense of matching the outlays with the estimated receipts. I have figures that I will give you on our present estimates, but it is not, as I think you full well know, designed as a budget reduction package, or a deficit reduction package. It is designed to the extent we can to make it neutral as far as the income and outgo of the funds.

Under the current schedule with the effective date provided in the legislation we have sent forward, there would be a net revenue increase of $2 billion in fiscal 1983, and we estimate only a $0.5 billion increase in outlays during fiscal 1983. Now I know Secretary Lewis is talking about speeding up those outlays and, of course, these figures have been obtained in consultation with the Department of Transportation, but I think we need to look at that a little closer if this is going to be a revenue-neutral package, because there would be a $1.5 billion net deficit reduction in fiscal 1983.

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[1] For combination trucks weighing over 75,000 pounds, the total annual tax per vehicle in 1985 from all the highway excise taxes will increase from $1,700 under current law to $4,150 under the Administration proposal.

It goes down in fiscal 1984. It would be a net plus $1 billion and then from 1985 on out we show a negative impact on the budget, a small negative impact, $0.7 billion in 1985 and going up to a little over $2 billion in 1987.

Chairman ROSTENKOWSKI. Buck, you were in the room when I asked Secretary Lewis about the taxable parts definition. How is the individual to decide whether or not this is a taxable part or this is not a taxable part? What is the taxpayer to do in a situation like that?

Mr. CHAPOTON. There is a problem under existing law on truck parts. The question is this. There is an exemption now on parts that are to be used on vehicles weighing less than 10,000 pounds, and those weighing more than 10,000 pounds, are taxable, and the law states it in terms of "ordinarily used on such vehicles."

The proposal that we have would have that scheme in place, would increase the 10,000 pounds to 33,000 pounds, and would as I mentioned, exempt 96 percent of the truck parts that are currently subject to the tax. This would remove significantly the administrative problem, but it doesn't go away, because for those 4 percent that are remaining, it is still a problem.

I am told that class VIII trucks are the ones that will be above the 33,000 pounds. The manufacturer will need to know whether the part in question is destined for that type of vehicle. I think it is not going to be, as was suggested, a problem of issuing regulations. They do make the determinations now. They can make the determination in the future, but I understand there is a point that it is expensive for them to make the determination.

I don't think we have to do anything further, but it is expensive for them to make the determination, and that is a question we could address further.

Mr. PICKLE. Will the gentleman yield?

Chairman ROSTENKOWSKI. Yes.

Mr. PICKLE. I asked the Secretary of Transportation earlier about the parts tax. He said if the part was classified as standard it would not be taxed. Now if these parts are interchangeable, it is a standard item, but it is still used on a truck weighing less than 33,000 pounds, then it is going to get taxed. So you are going to tax all of them.

I heard your answer to the chairman. I guess what you are saying then, is that it is a problem and you need to have further examination on how to deal with it. Otherwise you are going to be taxing parts that should not be.

Mr. CHAPOTON. That is right. That problem exists now and it is a lot more of a problem now. It will be reduced dramatically I believe, it should be if we are exempting 96 percent of the parts that are now taxable.

On the interchangeable parts, the question is whether it is designed for the heavier truck. I am not sure how much there will be left that is interchangeable now, but we should look into that, I agree.

Chairman ROSTENKOWSKI. Buck, have you any opinions on the gasohol exemption?

Mr. CHAPOTON. The gasohol exemption is expensive. It starts out at $70 million——

Chairman ROSTENKOWSKI. I know how much it is. What do you think about it?

Mr. CHAPOTON. I think Secretary Lewis said that it would be appropriate to reexamine the new exemption. I think, Mr. Chairman, in all candor, there was some confusion about whether the intent was to retain the present law exemption of 4 cents or to provide an additional exemption of the extra nickel. I think there was not confusion on the part of some people. They clearly wanted the exemption for the extra nickel, but I think there was some confusion within the administration on this point.

Chairman ROSTENKOWSKI. Do you think that you will be able to focus on that confusion?

Mr. CHAPOTON. I think I could say that we would not resist a reduction in the exemption from 9 cents to something closer to the 4 cents, but in our proposal——

Chairman ROSTENKOWSKI. In other words, you would recommend that the 4-cent exemption be confirmed but that no exemption apply to the additional 5 cents?

Mr. CHAPOTON. Just continue the 4 cents and tax the new 5 cents, right.

Chairman ROSTENKOWSKI. Did the administration intend to increase the motor boat and the general aviation tax by 5 cents?

Mr. CHAPOTON. No, Mr. Chairman, we did not, and I understand that is in the bill, but that is simply an error.

Chairman ROSTENKOWSKI. It is an error?

Mr. CHAPOTON. That is an error.

You did say commercial aviation?

Chairman ROSTENKOWSKI. General aviation.

Mr. CHAPOTON. General aviation.

Chairman ROSTENKOWSKI. Motor boat fuel tax and general aviation.

Mr. CHAPOTON. No, I am sorry, motor boat fuel taxes; yes we did intend on the motor boat fuel tax, not the aviation. The motor boat fuel tax falls in a different category. The aviation tax, of course, we increased last year, and so we did not intend to do that here.

The motor fuel tax was intended to be increased along with all other taxes, yes.

Chairman ROSTENKOWSKI. Thank you.

Mr. Pickle will inquire.

Mr. PICKLE. I take it then, Mr. Secretary, it is not your intention to impose additional taxes that affect trust funds in such areas as the aviation trust fund or the highway and water trust fund?

Mr. CHAPOTON. No, there are additional taxes on the motor boat fuel. That is intended.

Mr. PICKLE. But not aviation?

Mr. CHAPOTON. Not aviation.

Mr. PICKLE. Mr. Secretary, when Mr. Lewis was before our committee this morning, I raised the question pertaining to a bill that I had introduced last year sponsored by several members of the committee, that in effect would impose the Federal exise tax on trucks at the point of first retail sale, rather than at the wholesale price level as it is now.

We feel that this is a terrible imposition on the independent truck dealers as compared to factory outlet dealers. Independent truck dealers must pay the tax when they receive the truck, and they, in effect, finance many of these big truck sales. These trucks sell for some $50,000 to $70,000 and the tax that the small independent dealers have to pay, it is very difficult for them to handle, particularly when the sales of these trucks are down and the economic conditions are not good.

I propose to make the point of collection at the retail level rather than the wholesale level. What is your feeling about that?

Mr. CHAPOTON. I can understand. I think you are correct. Any time we have a manufacturers' excise tax, you are requiring the retailer to finance it during the period of time he has to pay for and hold the item subject to the tax.

I think we would prefer to see it maintained at the earlier level for a couple of reasons, the first being obviously the administrative problem of shoving the tax further along in the chain, and therefore having many, many more taxpayers. It is a tax that works well now.

The taxpayers who pay it are able to pay it, so we would cause a lot of confusion if we moved it down the chain, and the administrative costs would go up.

In addition, I think you would defer collection of the tax. I think we would have to reexamine the effect on the revenue change.

Mr. PICKLE. Why would it cost you more if you move the point of collection down? You only have some 900 to 1,000 independent truck dealers that are involved in this thing. That averages no more than about 20 collection points within a State.

When you say it is harder to collect, I don't think it would be any harder to collect than the taxes they collect now. The States and local governments collect taxes, sales taxes. I cannot believe that this would be a difficult problem, when you say it is harder to collect, just moving it from one point to the other.

If you had 10,000 places that you would have to collect from, it would be a different matter.

Mr. CHAPOTON. If you limit it to the truck tax, and I understand you are limiting it to the truck excise tax, manufacturers' excise tax.

Mr. PICKLE. Right.

Mr. CHAPOTON. My point may not be as well taken. We would be happy to look at that. I don't know how many retail distributors there are.

Mr. PICKLE. I hope you do. One argument I heard was that this might increase the deficit, but only with respect to the fact that we have a unified budget, what might be a little slow the first year would be made up the next year. It really doesn't affect the revenue, and it seems to me not unreasonable to administer.

The truck dealers say that there should be about 70,000 trucks sold next year, and of that total, about 15,000 are sold directly by the manufacturer through factory outlets. That means then that you have about 55,000 units to be sold by some 900 independent dealers.

Now it ought not to be difficult, it seems to me, for the Internal Revenue to collect a tax at the 900 points of collection. I am encouraged by your response that you ought to take a look at that. We are not talking about a proposal that takes money from the Treasury or necessarily adds to it, but one that is a great help to the independent people.

You see here is the problem they face. Here is a factory outlet. Because it is essentially the manufacturer, the factory dealer doesn't have to finance the tax because he doesn't have to pay the tax until the truck is sold. But the independent truck dealer must pay at the manufacturer transfer.

The independent truck dealer is trying to compete with that fellow locally when he has to pay the tax and finance it, and it is a terrible imposition on him and it isn't fair. If we just make the point of collection at the retail outlet it would be equal and if I were to ask you to do an enormously difficult administrative task that would be something else.

I hope we have a chance to visit with you further and see if there is anything else we can work out on that that would be agreeable. I am not trying to make or take money, but make it more equitable for the independent dealers to pay this tax.

Mr. CHAPOTON. I understand the independent gasoline dealers have raised the same point, and that you can see, there would be many more retail outlets, and the problems would be that much more severe.

I would also point out that the overall budget is not probably as significant here as the effects on the trust fund. These funds are dedicated to the highway trust funds of course and some——

Mr. PICKLE. I am just going to make this observation. You don't have to respond to it since my time is up.

Another point it seems to me that ought to be considered is the independent gasoline dealer gets his gasoline and he has to pay the tax when he gets it, it is my understanding. Now about 40 percent of his sales are by credit card. He has to pay the tax and then he has to wait a month or more to receive payment for the card sales, and he has to finance that tax all the time.

Now if you pay another 5-cent tax, his burden is made even heavier, and I don't think anybody intends for that to happen, but that would be the case. The average little fellow is going to have to finance a lot more on the independent gasoline sales.

My question to you, and you can respond to me later or in some way, as I understand it he has to pay semimonthly now on these sales, and if that is so——

Mr. CHAPOTON. Semimonthly, yes.

Mr. PICKLE. If that is so at least couldn't you make it say monthly, let it correspond with the credit card time?

Mr. CHAPOTON. I would want to look at a lot more of the facts. For example, Exxon told me yesterday that the credit card, the retail establishment is paid on the credit card sales within 5 days. There are I am sure others that are longer, but I think we would need more facts on that.

Mr. PICKLE. I thought it was once a month.

Mr. DUNCAN. I would also, joining with Mr. Pickle, urge a study on the independent chain retailers. It presents a problem for the independent chain retailers, because they perform the same function as do the wholesale distributors.

Mr. CHAPOTON. Are you referring, Mr. Duncan, to the truckers?

Mr. DUNCAN. No, I am talking about the independent chain retailer.

Mr. CHAPOTON. Of gasoline?

Mr. DUNCAN. Of gasoline; yes.

Mr. CHAPOTON. OK.

Mr. DUNCAN. In effect, they are being penalized, because they have got to pay the tax at the very time that their supplies are delivered. I would like to ask you to see what that would cost.

Mr. CHAPOTON. All right.

Mr. DUNCAN. And give us a report.

I would also ask you this: The House recently saw fit to exempt taxicabs in cities from tax altogether. I understand that the urban centers, the cities are not going to benefit from this gasoline tax.

Why do we ask the taxicab people to pay the tax when they are not getting any benefit from it?

Mr. CHAPOTON. The exemption as I understand it for taxicabs was designed as a gas conservation proposal, and is limited to cities or to urban areas where taxicabs have ride-share programs, and we have questioned all along whether that purpose has worked.

We are not proposing any further exemption for taxicabs.

Now the question you are raising though is whether the benefit goes to the urban area from the tax that they would pay, and I think Secretary Lewis answered that question in general. He gave the percentage that I do not have, but I believe he said 55 percent of the benefits from the highway trust fund do go to—no, I had better not quote that.

Mr. DUNCAN. I thought he said none would go to the cities.

Mr. CHAPOTON. No; that large portion of the benefits do go to the urban areas, even though the urban areas in general, not just taxicabs, urban areas in general, will obviously pay a large share of this tax because it is a tax on gasoline, so I think the problem you are addressing would not be limited to taxicabs.

Mr. DUNCAN. He indicated that his recommendation was that the 4 cents exemption would continue, but the new 5 cents would apply?

Mr. CHAPOTON. That is correct; yes.

Mr. DUNCAN. Thank you.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Are there further questions?

Mr. Frenzel will inquire.

Mr. FRENZEL. Mr. Secretary, I am sorry I missed your testimony. I know you are in a hurry to leave. I would just like to ask you about the heavy vehicle use tax.

How much of an increase is that overall over the current use tax?

Mr. CHAPOTON. It is a significant increase on a per vehicle basis. This question came up before the Senate Finance Committee yesterday. If you look at just the highway use tax, it is quite a significant increase. The example I gave yesterday, the worst case example is an increase from around $240 to $2,700, but there is more to it than that, because these vehicles pay a lot of other taxes now, and I think a more accurate figure would be that under current law, still a large increase, under current law assuming mileage, 67,000 miles per year which I take it is a reasonable average mileage they might drive, current total taxes would be $1,700, and would increase to $4,100 or an increase of $2,400.

Still a big increase but nowhere as large as $240 to $2,700.

Mr. Frenzel. The problem is for a low mileage, heavy unit such as that that might be used to deliver steel or other heavy materials within a confined area. This type of unit would have a low mileage use and there would be an enormous increase.

I wonder if you thought about that?

Mr. Chapoton. We have thought about that. The low mileage case is a difficult case. There is no doubt about it. Ideally, you would have special rules for low mileage, but obviously as we all know in administering taxes such as these, there is only so much you can do to try to make it as equitable as possible.

We all agree, I think, the heavy trucks ought to pay a much higher share of the taxes that go into the trust fund than they now do. This is designed to deal with that overall problem and I think does deal with the weight problem in general and does deal with the mileage problem, too, because of the gas tax.

There are still going to be cases one can point out where there is a very significant increase.

Mr. Frenzel. For instance, the interstate highways go between cities, but there are a lot of truck lines that operate within cities or within metropolitan areas. They may never touch an interstate. I myself, in a previous incarnation, managed such a truck line. I paid heavy vehicle use taxes for years for vehicles that never touched an interstate highway.

I think somebody has got to look at this and see that we don't have 1,100-percent increases for vehicles which may not be getting a great deal of use out of the system, if we really mean it to be a use tax.

Mr. Chapoton. I think we really do mean it to be a use tax.

Mr. Frenzel. The way it is written, it is not going to be a use tax.

Mr. Chapoton. It won't be perfect. There is no doubt about that.

Mr. Frenzel. Thank you, Mr. Secretary. I know you are busy.

I yield the balance of my time.

Chairman Rostenkowski. Thank you, Mr. Secretary.

Mr. Chapoton. Thank you, Mr. Chairman.

Chairman Rostenkowski. The Chair calls Mr. Caywood, Mr. Gaussoin, Mr. Heldenfels, Mr. Alexander.

STATEMENT OF JAMES A. CAYWOOD, CHAIRMAN, AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION, ACCOMPANIED BY DANIEL J. HANSON, SR., PRESIDENT

Mr. Caywood. Mr. Chairman, I am James A. Caywood.

Chairman Rostenkowski. Welcome to the committee, gentlemen. We appreciate your taking time out of your schedules to join us and give us the information necessary to write good law. We will receive your testimony in the order in which I called your names if that is agreeable.

Mr. Caywood, you may lead off. However, I would like to observe that you have all been allocated specific times. If your statements are longer than the specific times, we hope you would summarize.

Mr. CAYWOOD. I am the the president of De Leuw, Cather & Co., with headquarters in Washington, D.C., and I am here today representing the American Road & Transportation Builders Association, of which I am the chairman. I am accompanied by ARTBA's president, Daniel J. Janson, Sr.

ARTBA is a national organization with members concerned with all aspects of transportation development in the United States. Our major interests include highways, airports, railroads, and public transit, with a particular concern for the safety of all modes. Our membership includes contractors, public officials, materials producers and suppliers, equipment manufacturers and distributors, transportation safety specialists, and educators.

We are here today to express our strong support for an immediate increase in the highway user fees which support the highway trust fund. We do so primarily because of the urgent need to undertake a long-term rebuilding of the national highway system. The increase in the program is especially desirable at this time because of the important employment values it contains. Through this program, we can put many thousands of unemployed workers back to work.

The highway program is a shared responsibility of the Federal, State, and local governments. In 1981, all levels of government spent a total of $38.9 billion on highways and streets. Of that amount, $18.8 billion was spent on capital projects. The remaining $20.1 billion was expended for noncapital purposes, principally maintenance, traffic services, and law enforcement.

We are concerned with the capital portion of the highway budget because the Federal share of the problem is so important. In 1981, a total of $7.9 billion was expended from the highway trust fund, which represents about 42 percent of all capital spending.

To correct the deficiencies in the highway system, we need to at least double the current capital spending. The proposed increase in the Federal share must be accompanied by increases of a similar magnitude at the State and local levels. We do not expect, or look for, a Federal "quick fix" for our highway problems. Instead we seek a strong, long-range Federal commitment as a foundation for an increased level of funding at both the State and local levels.

Each billion dollars invested in the Federal-aid highway program produces over 63,000 full-time jobs. These jobs will be spread out throughout the economy. Most important, however, the direct impact will be felt in numerous industries particularly hard hit by unemployment.

These include the transportation construction industry, where current unemployment exceeds 23 percent. The highway program also has a major impact on steel, cement, asphalt, and aggregate producers, all of which are presently operating far below capacity. We do, indeed, foresee an immediate positive impact on these distressed sectors of the economy.

In summary, our proposed recommendations are as follows: One, the proposed increase in user fees should be made effective immediately upon enactment. The mechanisms for collecting these fees are already in place; no extended regulatory proceedings should be necessary.

Two, the highway trust fund should be extended on a permanent basis by simply striking out the existing September 30, 1984, expiration date.

Three, highway authorizations should be increased to at least $12 billion in fiscal year 1983. They should be increased in graduated steps to reach a level of $18 billion by fiscal year 1987.

Four, the arbitrary obligation ceiling, which is the equivalent of impoundment, should be removed immediately.

Five, each State should be guaranteed at least on an 85-percent return of the highway-user fees paid into the highway trust fund by the highway users of that State.

Mr. Chairman, I believe the balance of my statement we will just submit for the record.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION

My name is James A. Caywood. I am the president of De Leuw, Cather & Co., with headquarters in Washington, D.C., and I am here today representing the American Road & Transportation Builders Association, of which I am the chairman. I am accompanied by ARTBA's president, Daniel J. Hanson, Sr.

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4. The arbitrary obligation ceiling, which is the equivalent of impoundment, should be removed immediately.

5. Each state should be guaranteed at least an 85 percent return of the highway-user fees paid into the Highway Trust Fund by the highway users of that state.

THE MOTOR FUEL USER CHARGE

The Federal user charge on motor fuel is, quite properly, the principal source of revenue for the Highway Trust Fund. ARTBA believes that it should continue to be the principal source, augmented by special charges on the heavier classes of vehicles.

The user charge on motor fuel has several distinct advantages. First and foremost, it is an equitable charge. Those who do not use the highways do not pay. Consumers who drive more pay more than those who choose to drive less. Drivers of vehicles with greater weight and horsepower, consume more gasoline, and pay more per mile driven. Fuel consumption is by far the best single measure of highway usage.

The motor fuel user charge has the further advantages of being relatively easy to collect and difficult to evade. The only loop-holes are the legally approved ones, such as the gasohol exemption. ARTBA has steadfastly opposed such loop-holes. Every vehicle which operates on the public roads should pay the basic motor fuel user charge.

HISTORY OF HIGHWAY FUNDING

The linkage between the motor fuel user charge and the construction and maintenance of highways is well established in law and precedent. The very first motor fuel user charge in the United States was established by the Oregon legislature in February, 1919. Other states quickly followed the Oregon example, usually with a provision dedicating the revenue for highway purposes. By 1929, every state had imposed a motor fuel user charge of at least 2 cents per gallon.

The Federal motor fuel user fee dates from 1932, when a charge of 1 cent per gallon was levied. The Federal charge was increased to 1.5 cents in 1940 and to 2 cents in 1951. With the establishment of the Highway Trust Fund in 1956, the rate went to 3 cents per gallon. It was further increased to 4 cents in 1959. At that time, it was equal to the cost of a first-class postage stamp.

The user charges applied in 1956 were developed pragmatically, and were intended to be perfected at a later date. As stated in Sec. 209(b) of the Highway Revenue Act of 1956:

"It is hereby declared to be the policy of the Congress that if it hereafter appears—

"(1) that the total receipts of the Trust Fund * * * will be less than the total expenditures from such Fund * * *: or

"(2) that the distribution of the tax burden among the various classes of persons using the Federal-aid highways, or otherwise deriving benefits from such highways, is not equitable, the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures, or such equitable distribution, as the case may be."

THE EQUITY ISSUE

Since 1961, the changes in user charges have been relatively minor. They have been directed essentially to provide relief for certain classes of users, without complete review of the entire equity situation. The Surface Transportation Assistance Act of 1978 directed the Secretary of Transportation to undertake a new Highway Cost Allocation Study.

ARTBA supports the general findings of the Highway Cost Allocation Study and considers it to be an appropriate basis for adjusting the highway-user charges supporting the Highway Trust Fund in the future.

THE IMMEDIATE PROBLEM

We are confronted with an urgent need to extend the life of the Highway Trust Fund and substantially increase the supporting highway-user charges. This should be done at once.

The adoption of the revenue proposals submitted by the Administration, together with the necessary authorizing legislation, will enable us to get to work immediately with the restoration of our highway system. At the same time, we will take a giant step forward in relieving unemployment, particularly in the hard-hit construction industry where almost one worker in four is out of work.

We strongly urge the adoption of the Administration proposal, with the suggestion that it is appropriate for this Committee to consider a fine-tuning of the revenue provisions at a reasonably early date. For example, the proposed increases in the user charges impacting the trucking industry are related, to some extent, to proposed changes in the area of allowable sizes and weights. It is not improbably that some changes in language will occur in the legislative process.

THE ROLE OF TRANSIT

Approximately 95 percent of all urban passenger miles of travel in the United States is by private automobile. Buses account for 2.7 percent, subways and other rail systems 2.2 percent, and taxicabs less than 1 percent.

Urban transportation is properly viewed as an interrelated intermodal system, heavily dependent on streets and urban freeways. In the narrow view, the highway user is concerned with the streets and freeways, but not with the other elements of the system such as transit vehicles and fixed facilities for rail transit.

ARTBA believes that somewhat broader view is in order, one in which the urban transportation system is seen as an integrated whole. In that broader view, it is not inconsistent to direct some Federal highway-user revenues to the capital costs of public transit. Such applications are fairly common at the state level. We therefore support the Administration's transit funding proposal.

At the same time, we believe that the state and local governments should be able to exercise the option of using the proposed transit funding for highway needs, in cases where highway needs are more pressing. ARTBA firmly opposes the use of any highway-user revenues to support the operating costs of public transit.

Mr. Chairman, we appreciate the opportunity to present the view of the American Road & Transportation Builders Association. We will be most pleased to respond to your questions, or to supply additional information.

Chairman ROSTENKOWSKI. Mr. Gaussoin, you may proceed.

STATEMENT OF ROSS C. GAUSSOIN, CHAIRMAN, AMERICAN TRUCKING ASSOCIATIONS, INC., ACCOMPANIED BY BENNETT C. WHITLOCK, PRESIDENT, AND EDWARD V. KILEY, SENIOR VICE PRESIDENT

Mr. GAUSSOIN. Mr. Chairman, members of the committee, we appreciate the opportunity to testify here this morning on the need for increased funding of this Nation's Federal aid highway program.

With me this morning are Bennett C. Whitlock, president, and Edward V. Kiley, executive vice president of the American Trucking Associations.

We have submitted statements for the record. In the interest of conserving the committee's time, I would like to summarize the principal issues in the statement.

First, the trucking industry has long supported a sound, financed national interstate Federal aid highway program. That support has been continuous and progressive. We recognize the Nation's highway program to be in serious condition of increased funding in order to satisfy needed repairs and construction.

In that area, earlier this year—as a matter of fact in February—our industry supported and proposed to the Congress a substantial program of increased taxation in order to help bring about the needed funding addressed. As a matter of fact, we proposed at that time that a heavy combination vehicle move from the figure of approximately $1,700 in Federal taxes up to a level of $2,300, an increase of approximately 35 percent.

I can say today that our industry supports DOT's recommendation for a 5 cent increase in fuel. However, we strongly oppose the Department of Transportation's proposals on increased special truck taxes.

In the DOT proposals, our tractor semitrailer, which has long been considered a workhorse in this industry, would move from $1,746 of Federal taxes up to a level of $4,919. The twin trailer operations, those combinations would move from a figure of $1,868 to a level of $5,569. Those increases approach 200 percent.

The significant increment in the DOT's proposal is the highway use tax. That highway use tax as proposed by DOT would move from $240 to $2,700 per vehicle. Although the fuel increases by approximately 125 percent, those special taxes that would be placed on the trucking industry's heavy combinations would go between 210 and 240 percent in increase.

In my company, Silver Eagle Co. in Oregon and Washington, the impact of the DOT proposal would be some $555,000 of annual increase on a vehicle fleet of some 150 line-haul units. I can tell you with not shortage of disappointment that my company is not unique in the industry today. We have shown a $16,000 net profit year to date on some $20 million worth of revenues.

The industry condition today is a difficult one. The combination of economic recession and deregulation are dealing the industry a severe blow. As a matter of fact, the industry is in the worst condition it has been in since the Great Depression.

In the first one-half of this year, the general freight carriers in the industry have shown a deficit of one-tenth of 1 percent. The estimated 1982 revenues in the industry are some $44.1 billion, showing an estimated $210 million of profit. Yet the DOT proposals would bring increases in taxes on this industry of some $2.3 billion, obviously a significant problem.

In summary, I would like to say our industry does support a sound funding program for the Nation's highways. We support the 5-cent tax on fuel. We support increases on those special taxes. In return, however, we must have a program where the increases will be coupled with responsible improvements in allowed sizes and weights to provide this industry needed productivity improvements and, those increases must be within this industry's ability to pay.

Mr. Chairman, we believe our proposal is responsible and equitable. The full details are submitted in our statements. We ask they be accepted in that regard. We offer our full and continued support and commitment to work with your committee to bring about a responsible result.

I and my associates would be happy to answer any questions.

[The prepared statements follow:]

STATEMENT OF ROSS C. GAUSSOIN, PRESIDENT, SILVER EAGLE CO., AND CHAIRMAN OF THE BOARD, AMERICAN TRUCKING ASSOCIATIONS, INC.

Mr. Chairman, and members of the committee, we appreciate the opportunity to testify before you on the need for increased funding of the Federal-aid highway program.

My name is Ross C. Gaussoin, and I am President of Silver Eagle Company, with headquarters in Portland, Oregon. I am also Chairman of the Board of American Trucking Associations.

With me today are Bennett C. Whitlock, Jr., President of ATA, and Edward V. Kiley, Senior Vice President.

American Trucking Associations is a federation with affiliated associations in every state and the District of Columbia. In the aggregate, we represent every type and class of motor carriage in the country—both for-hire and private.

The trucking industry has long recognized the need for a modern and progressive Federal-aid highway program. In fact, in July of 1948—a full eight years before President Eisenhower signed the Federal Aid Highway Act of 1956, creating the interstate highway system—ATA went on record in favor of proceeding as rapidly as possible with the development of the interstate highway program.

Today it is obvious that current financing is inadequate to complete and maintain the Federal-aid highway program. Unless corrective action is taken, our industry—indeed the nation's whole economy—stands to lose.

Recognizing the critical need for increased funding for the highway program, the trucking industry, as represented by ATA, last February endorsed increases in federal highway taxes—including increases in the special taxes on heavy trucks. The trucking industry was the first group to move beyond the rhetoric concerning deteriorating highways and to propose a specific program of tax increases to help meet the present and future needs of an adequate and properly maintained highway system.

Our willingness to come forward with such a program, given today's anemic economic conditions, underscores our commitment to a continued and expanded highway system.

The industry's tax proposals, which were submitted to the Congress last May, would generate nearly $10.5 billion of revenue for the Highway Trust Fund in 1985. This amount coupled with the surplus in the Trust Fund will support a $13.5 billion highway program in 1985.

Under the industry's tax program, a typical five-axle tractor semitrailer would pay more than $2,300 in Federal highway use taxes, compared with $1,750 today. Heavy trucks would be paying 26.3 percent of all highway taxes despite the fact that they comprise only 1.1 percent of all vehicles and travel only 5.5 percent of all highway mileage.

However, the trucking industry's support of increased truck taxes is contingent upon meaningful increases in our productivity through increased sizes and weights. This country's total transportation requirements will not be fully met until our industry can operate at modern size and weight limits nationwide.

Before addressing the specifics of proposals before your committee today, I would like to make a few comments on the Department of Transportation's cost allocation studies.

The Department was directed by Congress in the Surface Transportation Act of 1978 to make a highway cost allocation study. Actually, DOT made two. One was based on the incremental approach which has been the measurement accepted by highway engineers for many years. The second study was based on a new methodology—the so-called consumption or damage approach. Unfortunately, this latter study has received all of the publicity—primarily because it calls for outrageous increases in truck taxes.

The trucking industry seriously questions and disputes the methodology in this study because it attributes virtually all highway damage to truck weight and gives no significant recognition to age, weather, and environment.

Any of you who have ridden on the Baltimore-Washington Parkway, from which trucks are prohibited, can surely attest to the effect of non-weight factors on highway deterioration.

I should add that the DOT incremental study—which it has attempted to bury—conclusively finds that trucks in all weight categories are paying their fair share of the current federal highway taxes.

Mr. Chairman, we have prepared a detailed statement discussing the industry's objections to the DOT's cost allocation study based on the consumption theory and which also discusses in greater detail the ATA tax program. I request that this statement be made a part of the record.

Turning to the Department of Transportation's specific tax proposals, the trucking industry does not oppose the 5¢ increase in the present Federal 4¢ per gallon fuel tax. However, we adamantly oppose DOT's proposals which would increase the present Federal taxes applicable only to over-the-road combination vehicles by more than 200 percent.

The 5¢ fuel tax increase will represent a dramatic increase in truck taxes, for example, a typical five-axle tractor semitrailer will pay an annual increase in fuel taxes of $729—almost 25 times greater than the $30 DOT estimates will be paid by the typical passenger car. The 65-foot twin-trailer unit, which is presently operating extensively in 36 states, will pay an additional $851—almost 30 times greater than the passenger car. The total cost of the fuel tax increases to the trucking industry is $1.049 billion.

If the industry faced only a 5¢ fuel tax increase, it would place a severe financial burden upon our industry. But in addition, DOT also advocates special truck taxes that would impose another $1.3 billion tax burden on the trucks. A breakdown of this total is as follows:

Impact of DOT's proposed special truck taxes on trucking industry—1985 estimates

Special truck taxes:	*Millions increase*
Heavy use	$1,035.8
Excise	207.7
Tire, tread, rubber	12.5
Parts and accessories	50.7
Lubricating oil	(12.5)
Increase	1,294.2

The devastating impact of these special truck tax recommendations is even more dramatic when related to individual units. Again using the typical five-axle tractor semitrailer and 65-foot twin-trailer, the annual increase would be:

IMPACT OF DOT'S PROPOSED SPECIAL TRUCK TAXES ON TWO TYPICAL VEHICLES

Taxes	Increases	
	Five-axle tractor semitrailer	Five-axle twin trailer
Heavy use	$2,150	$2,520
Excise	151	157
Tire	20	35
Retread rubber	118	134
Inner tubes	(11)	(12)
Parts and accessories	25	26
Lubricating oil	(9)	(10)
Increase	2,444	2,850

Mr. Chairman, DOT's total tax package—fuel and special truck taxes—represents roughly a 200 percent increase in Federal highway tax payments for these typical combinations. A typical five-axle tractor semitrailer would pay almost $5,000 instead of the current $1,746. A twin trailer combination would pay $5,600 instead of the current $1,868.

To demonstrate the effects of DOT's proposals upon various types of trucking operations, we have requested representative companies throughout the country to apply the DOT tax program to their own operations, and to advise us promptly. We expect to have this data within the next 24 to 48 hours, and request the opportunity to submit it for the record.

Mr. Chairman, the DOT recommended tax increases can only be viewed as confiscatory. It is incredible that the Department could be seriously proposing these truck tax increases under any circumstances. It is even more incredible that they are proposing them at a time when the trucking industry is reeling financially from the dual effects of the economic recession and the disruptions created by deregulation. The combination of recession and deregulation has produced a financial condition that can best be described as horrendous.

Available data shows that 195 motor carriers have closed their doors and ceased operations since 1980. At least another 55 carriers are experiencing financial difficulties so severe that their future is uncertain. Together, these 250 companies represent more than $2.31 billion in annual gross revenues and more than 47,000 jobs.

There have been almost 70 failures of Class I and II carriers out of a total of 3,707—or a failure rate of 1.9 percent. According to the most recent figures available from Dunn and Bradstreet, business failures are occurring this year at a rate of 80 out of 10,000 businesses—a failure rate of 0.8 percent. The motor carrier failure rate is, therefore, more than double that of other businesses.

The general condition of the industry reflects not only these failures and bankruptcies, but the poor financial picture of the carriers that are continuing to operate.

In the first half of this year, for general freight carriers, the overall operating ratio rose to 99.29. This means that for every $100 of gross revenues, the typical carrier was making only 71¢. Interest expenses totally eroded this slight operating income, and for the first half of this year there was a .10 percent deficit.

ATA's Research and Economics Division estimates that for the full year of 1982, the entire regulated trucking industry will have gross operating revenues of $44.1 billion with a net income after taxes of $210 million. This represents a net income of less than one-half of one percent.

The International Brotherhood of Teamsters estimates that more than 175,000 of their trucking industry members are out of work today. The non-union sector of our industry is similarly affected. If DOT's proposals prevail, untold thousands would be added to the unemployment rolls. But the danger of increased unemployment goes far beyond just trucking operations. Many related industries are already depressed. Truck and trailer manufacturers, tire manufacturers, manufacturers of truck equipment and components—will all feel the effects of the DOT proposals.

It will do no good to create jobs in the construction industry with one hand while eliminating jobs in trucking and related industries with the other. Neither will it do any good to build highways and bridges if the trucks that are America's transportation lifeline are taxed beyond their ability to survive.

Special taxes applicable only to the trucking industry have historically been viewed as our contribution to the Highway Trust Fund in exchange for whatever additional costs our size and weight imposes on highway construction. The trucking industry needs increased productivity. We need the positive effects that a nationwide minimum uniform size and weight standard would bring both in terms of reduced operating costs and fuel savings. We have proposed special taxes which we believe adequately reflect our true cost responsibility related to necessary changes in Federal size and weight standards. Even if the DOT's size and weight recommendations included the necessary changes (which they do not), the proposed increases in special truck taxes far exceed our ability to pay.

In closing, Mr. Chairman, the trucking industry does not oppose the proposed 5¢ fuel tax increase. Moreover, we have offered recommendations for special taxes commensurate with our ability to pay, provided these increases are accompanied by acceptable changes in the Federal size and weight standards.

We recognize that in the limited time available in this special session, agreement on the level of special taxes on trucks which we can afford and support for the needed size and weight relief may be impossible. Should this be the case, we urge the committee to defer any action on special truck taxes and adopt only the five-cent fuel tax increase.

STATEMENT OF AMERICAN TRUCKING ASSOCIATIONS, INC.

American Trucking Associations, Inc. (ATA), is a national federation with affiliated associations in every state and the District of Columbia, plus thirteen national conferences. In the aggregate, ATA represents every type and class of motor carrier operation in the country both for-hire and private.

Of the many issues being subject to national debate, today there is one on which there is obviously a general consensus. There is an urgent need for additional funding of the nation's highway program. ATA therefore supports a general increase in the fuel tax to provide the necessary revenue.

When Congress passed the Federal-aid Highway Act of 1956, it very carefully provided for full Federal financing of the expanded highway program by special taxes on the nation's motor vehicle owners and operators.

The taxes on motor fuel (gas, diesel and special fuel), the tax on lubricating oil, the tax on tires and tubes and on tire retread material, the tax on new trucks, buses and trailers, the tax on truck and bus parts and accessories, and the special weight tax on trucks with a taxable gross weight of more than 26,000 pounds, provide the total source of Federal-aid highway construction financing.

Since its inception, the Highway Trust Fund has received no appropriations from the general fund. It has been a completely self-sustaining, pay-as-you-go, program and has represented no drain on the Federal budget nor has it been at the sacrifice of any other Federal programs.

The Act of 1956 specifically provided that the Federal government's highway appropriations had to be governed by the taxes that were being paid by highway users. If the taxes were not coming in, the highway obligations could not be made. Tax collections determined the maximum level of expenditures.

This self-sustaining, independent method of financing was not unplanned or accidental. It was the result of a carefully worked out program that involved the cooperation and understanding of the Congress and the nation's highway users. Without this understanding, and the acceptance by highway users of the financial responsibility, the expanded highway program would not have been possible.

The highway tax burden, and its specific relationship, fixed by Congress, to the highway program is of particular concern to the trucking industry. Alone, of all the transportation modes, the trucking industry pays special Federal taxes on all of its fuel, lubricants, tires and tubes, equipment, both trucks and trailers, parts and accessories, plus a special weight tax on certain heavy trucks.

The Highway Trust fund approach has been highly successful. It is a "user charge" program to the ultimate degree. The trucking industry has been a consistent supporter of the program and of the trust fund concept. It must be continued.

The pressing goals of additional funding are:

1. Completion of the National System of Interstate Highways at the earliest practical date.
2. An adequate 4-R program for the Interstate System.
3. Adequate funding for the other Federal-aid highway systems.
4. A bridge program to address the problem of obsolescence and physical deficiencies of bridges on the Federal-aid systems.

In 1979, the Trust Fund produced more than $7 billion, the highest annual level of collections for the Fund. The taxes that are producing this revenue have not been changed since 1961. Since the principal producer of taxes is the 4 cent per gallon tax on motor fuel (gasoline, diesel and special fuels) revenue from this source has not kept pace with the effect of inflation on increasing highway construction costs.

Under the present tax program, all trucks have since 1956 paid more than $45.8 billion into the Highway Trust Fund. At the present tax rates all trucks, representing 20 percent of all motor vehicles, are paying 40 percent of Trust Fund revenues. But more importantly the larger trucks, trucks with gross weights above 26,000 pounds, are paying approximately 26 percent of Trust Fund revenues, while constituting only 1.1 percent of total motor vehicles and traveling 5.5 percent of the total mileage.

We believe that the large trucks are paying, and have paid, their fair share of the total taxes for the Federal-aid highway program. Later in this statement, this issue of "fair share" is addressed more directly.

In the past, the trucking industry's position on the Federal-aid tax program has generally been confined to a position of urging continuation of the Highway Trust Fund, confining the Trust Fund taxes essentially to those currently in existence, and using the tax revenues for highway-related purposes. Together with these basic conditions we have repeatedly indicated our willingness to continue to pay our fair share of whatever additional funding is necessary for a sound, progressive highway program.

The trucking industry has made an enormous investment, through special taxes, in the highway program. We have an important stake in the program's future. Because of this, our industry, following our 1981 annual meeting, took an historic step. A special industry "Blue Ribbon" committee was appointed to develop an industry highway program, including specific tax recommendations to provide the additional funding that was needed.

It had become obvious to us, as it was to others, that unless additional funding was made available for the Federal-aid highway program, particularly adequate funding to complete the Interstate System and to keep that system in proper condition, our industry, along with all part of our economy, will face serious transportation problems.

This is also true if we fail to have adequate funding to move ahead with a program of modernization of the Federal-aid primary system and with adequate financial aid for other programs, including a bridge program.

We have given this matter the most serious consideration. Increased highway taxes are increased costs of doing business, and no business, particularly today, takes on increased costs of doing business too readily. However, we felt that the alternative of an inadequate program presented far more serious consequences.

As a result, our industry adopted at its meeting in February of this year, based on recommendations from our special committee, specific tax recommendations for additional highway funding.

The trucking industry has recommended the following increases and/or changes in the Highway Trust Fund taxes: effective for fiscal year 1983:

Increase the 4 cent per gallon tax on fuel (gasoline, diesel and special fuels) to 6 cents a gallon with an additional one-cent increase October 1, 1985.

Make no change in the current 10 percent manufacturers' excise tax for trucks and trailers over 10,000 pounds gvw.

Eliminate the current 10 cent per pound tax on tires weighing 50 pounds or less.

Increase from 10 cent per pound to 15 cents per pound the taxes on tires weighing more than 50 pounds.

Eliminate the tax on tubes.

Increase the retread rubber tax from 5 cents per pound to 7.5 cents per pound.

Increase the current 8 percent manufacturers' excise tax on truck parts and accessories (for trucks over 10,000 pounds) to 10 percent.

Increase the lubricating oil tax from 6 cents per gallon to 9 cents per gallon.

Double the present heavy truck use tax by raising it from $3 per thousand pounds (gvw) for trucks over 26,000 pounds to $6. (The increase in this tax is tied to a program for a more efficient method of collection. This should produce more revenue, independent of any tax increase, because of the present loss through non-compliance.)

Increasing the Federal fuel tax to 9 cents a gallon, or 3 cents more than the trucking industry proposal, is acceptable. This will provide additional revenues which certainly are needed. However, the trucking industry will oppose additional special taxes that apply only to trucks that are not basically in line with the increases we have already proposed to the Congress, such as those specified above.

We believe the industry's tax recommendations to be fair and equitable and consistent with our program for size and weight relief, of which the tax program is an inseparable part.

Under the present tax structure, combination vehicles would be paying $1.9 billion in 1985. Under the industry's program those vehicles will be paying $600 million more.

This is an additional cost burden which the industry has indicated it is willing to assume in order to continue a sound, needed highway program, including size and weight relief. The increases are not small in terms of actual truck operations. For example, a typical 5-axle truck tractor semitrailer combination currently is paying $1,746 annually in Federal taxes. Under the industry proposal, this unit will be paying $2,317 annually. This is an increase of approximately 32.5 percent.

However, we must reiterate that the industry proposal for increased truck taxes is irrevocably tied to the industry program for size and weight relief, whether the fuel tax increase be 2¢ or 5¢ per gallon. In the absence of size and weight relief, the trucking industry can support no more than the fuel tax increase.

These taxes are, of course, increased costs of operation. No industry takes on increased costs of doing business lightly. This is acutely true at this time when the trucking industry is suffering financially from effects of the recession and from deregulation. This combination has produced a financial condition that saw two out of three regulated motor carriers losing money in the fourth quarter of 1981 and the first quarter of this year. Carriers as a whole barely broke even for the first six months of this year.

ATA's tax proposals represent what we believe to be an overpayment of the heavy truck's fair share of total highway cost responsibility. This overpayment is supported by the industry's incremental study which was submitted for the record of the hearings May 7, 1982, before the Surface Transportation Subcommittee of the House Committee on Public Works and Transportation, and during hearings August 10, 1982, before the Subcommittee on Transportation of the Senate Committee on Environment and Public Works.

The overpayment is also supported by the DOT Incremental Study, but the Department has ignored the finding of this study in submitting its recommendations to the Congress.

FARE SHARE

The Federal-aid highway program is paid as stated earlier at the Federal level almost in its entirety from special taxes against the nation's highway users, especially in terms of Federal-aid highway construction funding.

This means that the question of equity in highway user taxation, or highway cost allocation, is a question not so much as to level of taxation, but whether one group of motor vehicles is paying more or less than it should into the Highway Trust Fund.

The question at issue at the time the 1956 Act was passed was the relative equity of highway user taxes as they impacted on the various vehicle groups. The Congress, at that time, asked for studies on two different methods of determining general tax equity. One was the "differential costs" or "incremental" method and the other was the "differential benefit" method.

In response to this directive, the Secretary of Commerce submitted reports to the Congress in 1961 and 1965. Under the "differential cost" or "incremental" method there was a finding that the heavier trucks were underpaying their cost responsibility. Under the "differential benefit" approach the heavier trucks were found to be overpaying. Because both methods automatically involved many subjective judgments the Congress balanced the findings and found that the larger vehicles, under the 1961 tax structure were paying their fair share.

However, there was an obvious preference for the "differential cost," or "incremental" approach and as a result the Congress directed that this method be updated periodically.

The 1965 incremental cost study was updated in 1969 and again in 1975, although the 1975 study was not released at the time. The results of the 1969 incremental study were essentially similar to the 1965 findings. The 1975 study found that heavy trucks were paying more than their share of cost responsibility.

Throughout the period from 1956 through 1975 the Federal Highway Administration (Bureau of Public Roads) was saying to the states and others that the incremental cost method was by far the most valid highway cost allocation approach.

In 1978, following hearings before the Oversight Committee of the U.S. House of Representatives Committee on Ways and Means, the Congress called for another study based on the "costs occasioned" method of measuring highway cost equity. We believe that a reading of past statements in Congressional reports will show that by "costs occasioned" the Congress meant "differential costs" and thus wanted a new incremental study of highway cost allocation.

As part of this statement, we are enclosing a detailed analysis of the "differential cost" or "costs occasioned" approach to show, historically, they are one and the same. We believe the Congress wanted a new, updated, incremental study.

The 1978 Highway Act directed that the Congressional Budget Office be involved in preliminary discussions as to how the Department of Transportation was to proceed in the highway cost allocation study.

The trucking industry, along with other interested groups, participated in early public discussions and hearings concerning the study. These discussions included representatives of the Congressional Budget Office.

It became obvious to the trucking industry that neither the Congressional Budget Office nor the Department of Transportation were considering following the Congressional directive for another incremental study.

An entirely new highway cost allocation method was evolving—"costs occasioned" was not going to mean "differential" or "incremental" costs.

We strongly objected to the new untested method of cost allocation. It was not going to be an "incremental" study but something entirely different. Our deep concern led us to submit statements to the Department of Transportation outlining our objections.

Seeing no change in the study approach, we submitted letters to the Chairmen of the Senate Committee on Environment and Public Works and Finance Committees, and to the House Committees on Public Works and Transportation and Ways and Means Committee, expressing our concern. A copy of this letter is attached to this submission.

As the study progressed, we made repeated submissions to the Department of Transportation voicing our objections and repeating our assertion that the Department was not carrying out a true incremental study. We knew that the method they were following, in addition to not being an incremental method, was a method that could not help but find that heavier trucks were not paying their fair share of highway costs.

Our submissions are acknowledged in the Appendix of the "Final Report on the Federal Highway Cost Allocation Study" (see pages A6–A8). However, with the exception of a few minor deviations, none of our fundamental objections were heeded.

We felt that the Congress should have the results of an incremental study. Accordingly our industry in cooperation with the Motor Vehicle Manufacturers Association retained the firm of CounselTrans, Inc., to conduct an incremental study along the lines of those conducted in the past by the Department of Transportation. This study, "Allocation of Federal Highway Program Costs to Motor Vehicles on the Basis of the Costs They Occasion (A Classic Incremental Analysis)," is referred to earlier in this statement and we ask that it be made a part of the record of these hearings. It shows, as stated, that the heavier vehicles are paying more than their fair share of highway costs under the current tax structure.

Although a true incremental study was not included in the original plans of the Department of Transportation, we are pleased to see that the "Final Report" does include the results of such a study. It is along the lines of the incremental studies, which the Department has favored in the past, and as in the case of our incremental study, it shows the heavier vehicles to be paying more than their fair share of Federal highway user taxes.

Despite this, however, the Department of Transportation has submitted its "Final Report" with its tax recommendations based on its "relative consumption" approach and not the incremental approach.

Although press releases and other statements have indicated an Administration proposal calling for an increase of 5 cents in the fuel tax, we know there is far more involved than a simple increase in the fuel tax. In addition to the fuel tax, which the trucking industry will by paying along with all other vehicles, it is proposed that an additional $1.3 billion be collected in increases in heavy truck taxes alone.

Such a huge increase in taxes would be untenable at any time, but under the current economic situation in the trucking industry they become confiscatory.

The full impact can best be shown by the effect on the annual Federal highway tax payments of a typical 5-axle tractor semitrailer combination, which was discussed earlier in this statement. As shown, this vehicle is paying $1,746 annually in Federal highway taxes.

The industry's tax program would increase the annual payments to $2,317. The 5 cent per gallon fuel tax increase alone would result in annual payments of $2,475. The 5 cent per gallon fuel tax coupled with the industry tax recommendations would result in annual payment for this vehicle of $2,755. However, the Department of Transportation, basing its recommendations on the new, untested, highway cost methodology is calling for tax changes which would increase the annual Federal highway tax payments of this vehicle to as high as $4,919.

This would be an increase of $3,173 annually, or 182 percent over what this vehicle is paying today. Such a payment is way out of proportion with any reasonable or fair determination of proper highway cost responsibility.

The major and vital difference between the findings of the Department of Transportation updated incremental cost allocation study and the new recommended approach shows the dominance of the new allocation philosophy and lies at the heart of the complete disagreement which has existed between the American Trucking Associations and DOT from the beginning of this study in 1979. The fundamental disagreement with this new philosophy rests on its double counting of heavy vehicle cost responsibility and on three critical changes which the Department of Transportation has made in their cost allocation methodology, as contrasted to the incremental method which had been developed by the Bureau of Public Roads and the Federal Highway Adminstration over a thirty-year period.

These three fundamental changes were: (1) Use of equivalent single axle loads (ESAL's) to distribute the costs of new pavements among various vehicle classes; (2) Distributing costs of rehabilitation and reconstruction among vehicle classes on the basis of improper pavement deterioration factors which depend heavily on the ESAL concept; (3) The assumption that "residual" or "common costs" in the relative consumption approach are the same as the basic road costs used in the traditional incremental approach; this assumption represents a complete change in cost allocation theory.

The most critical component of these changes is the direct use of the equivalent single axle load formula as virtually a direct measure of pavement damage or pavement deterioration. This formula which is sharply geometrical in its application is almost solely the cause of the huge shift in highway user taxes proposed in the recommended cost allocation findings against the heaviest combination vehicles.

THE USE OF ESALS

The equivalent single axle load concept, or ESAL, was derived from data generated during the AASHO Road Test of the early 1960's. ESAL values have been widely used in pavement design as a means of representing the accumulation of traffic loadings by different types of vehicles in relation to a standard axle load of 18,000 pounds. State highway officials also use ESAL's as a convenient way of keeping track of accumulated traffic. The use of ESAL's as a measure of pavement consumption, however, is both technically indefensible and substantially biased against heavier vehicles. The crucial question than is why can't their use be justified for direct pavement cost allocation if they can be used in pavement design?

An understanding of why ESAL's cannot properly be used for cost allocation involves a number of rather technical issues and at the same time the application of ordinary common sense. The situation is most dramatically illustrated by a number of state cost allocation proposals where assignments on the basis of ESAL's have led to conclusions that 95 to 99 percent of total pavement cost responsibility is attributable to trucks. Kentucky, for example, has allocated its total pavement investment, approximately one billion dollars, by ESAL's and "found" that the cost responsibility of all passenger cars, vans and pickups amounted to only $18 million—1.8 percent. What this means, and it is sheer nonsense, is that if all the trucks were taken off the highways in Kentucky, the State could have built its pavements to accommodate all passenger cars and other light vehicles for only 1.8 percent of what they actually cost. It is also appropriate to note that all truck traffic amounts to about 6 to 7 percent of the total vehicle miles of travel.

Faced with the absurdity of such assignment results based on ESAL's, a number of states, rather than discard the improper use of ESAL's, have simply taken some arbitrary percentage of the pavement costs and assigned them on some other basis. The new DOT study used ESAL's to develop "relative consumption by a particular axle" and used a new pavement deterioration function based on modified ESAL results to distribute rehabilitation costs. It is clear that DOT's assignment is heavily distorted through such use.

The fact that ESAL's have been around for a long time has apparently led many to lose sight of what they are, and what they are not, and to imbue them with a presumption of validity and status that is not open to question. The AASHO Road Test was designed to show the effect of vehicle weight on highways independent of weather, chemicals, proper maintenance or any other factor other than weight. They ran over a million axle loadings of up to 30,000 pounds single axle and 48,000 pounds tandem axle in a two-year period with little or no maintenance being performed on any roadway. Despite that enormous pounding, the highway sections built to modern design standards were essentially undamaged. Since the modern pavements weren't hurt, they couldn't be used in a formula measuring damage. so the damage formula was derived from the results of what happened to pavements that were deliberately underdesigned for the axle loadings which were run over them. When the Road Test was completed, nearly twenty years ago, most highway engineers knew what the formula was, and what its limitations were. But now suddenly, it is being imbued with mystical powers to measure pavement life and to measure responsibility for pavement rehabilitation and reconstruction.

If, in fact, the ESAL formula can properly measure pavement deterioration or pavement life, then the actual experience of major parkways which ban all heavy trucks should be a useful guide. These parkways should last hundreds of years based on the pavement designs used in their construction. But they didn't. The Baltimore-Washington Parkway had to be resurfaced in twenty-two years despite the fact that the heaviest vehicles it ever carried were a few buses every 24 hours. The Garden State Parkway in New Jersey had a similar history. So the parkways, without heavy truck traffic, lasted about the same time as other roads.

Part of the problem is that the very term "equivalency factor" suggests something that is a measurable, constant and well-established vehicle characteristic that can be used with impunity. After all, if "A" can be said to be "equivalent" to so many of "B," then one should be able to use them like any other algebraic quantity. The case with ESAL's is anything but this straightforward. In order to clarify the situation, the pertinent facts are summarized below:

ESAL values are not a measurable or definitive characteristic of any vehicle as are, for example, axle loads, gross weight, or other measurable attributes of vehicles or their use.

ESAL values are not constant over time, nor are they independent of the type, thickness and condition of a pavement and its physical environment. Identical axle weights thus do not have the same ESAL value at different types, thicknesses and conditions of pavement at any time. The ESAL value of a given axle-load application depends on the total number and distribution of all prior axle-load applications to a given pavement and to the age and condition of that pavement. DOT, however, treats ESALs as if they were simple constants.

The test sections of the ASSHO Road Test that were used as the basis for deriving the ESAL equations were primarily weak pavements that "failed," i.e. reached a terminal PSI (Present Serviceability Index) value, during the Road Test. There is no valid basis for extrapolating the use of ESAL's as a measure of pavement performance for strong or adequately designed pavements, or for conditions and environments significantly different from that of the Road Test site.

The form of the equations used to represent single-axis equivalency factors, an exponential of approximately the 4th power, has been shown [1] to be incorrect and that a theoretically correct representation should produce some form of S-shaped curve. The equations used by ASSHO also have a very poor statistical fit to the Road Test data upon which they are based.

A growing body of evidence reveals that ESAL's are very poor predictors of pavement performance (or damage) and particularly so for adequately designed pavements. While DOT's proposed use of ESAL's is technically incorrect, the most serious consequences of such use is the magnitude of the bias against heavier axles that stems from the incorrect form and inappropriateness of the AASHO equations.

One indication of this bias is provided by the theoretical work of Luhr & McCullough at the University of Texas at Austin [2] who have developed a set of strain equations, based on elastic-layer theory, to predict the performance of flexible pavements. Using the actual Road Test data, the Luhr & McCullough equations provide a significantly better statistical fit than do the AASHO equations.

A comparison of derived equivalency factors for tandem axles of the Luhr & McCullough and the AASHO equations reveals that, for heavy flexible pavements, the AASHO values probably overstate the relative effects of, 44,000- and 12,000-pound tandems by a factor of 17.5. In contrast to the assumed 4th power relationship of the AASHO equations, the Luhr & McCullough results show an implied relationship of approximately the 2.5 power. ATA is also reviewing the AASHO Road Test data where direct axle load equivalencies can be calculated. The preliminary findings are that the assumed 4th power relationship is not valid in this context, and that the real axle load equivalencies at the Road Test were no more than the direct ratio of different axle weights. As a consequence of these studies, ATA is calling for a complete reevaluation of the actual AASHO Road Test findings to attempt to reach agreement on a new, realistic pavement evaluation formula.

DOUBLE COUNTING OF REHABILITATION AND RECONSTRUCTION COSTS

The second major change incorporated in the new Federal Highway Cost Allocation Study, the entirely new treatment of rehabilitation or reconstruction costs, rests on a fundamental misunderstanding of highway cost allocation equity. DOT's Cost Allocation Study claims ". . . there is no 'double charging' of pavement costs." Yet, in fact, that is exactly what is done through the use of the new methodology derived by the Department for the allocation of rehabilitation costs.

Whether the new pavement costs are allocated directly through some modification of the ESAL's, or by the traditional determination of the actual cost of each additional increment of pavement and distributing those costs among each class of vehicles by axle miles, each method purports to allocate all of the costs of new pavement construction equitably among the various classes of highway users. Both the traditional incremental cost method and the new ESAL consumption method are presumed to allocate new pavement costs to each class of user so that each group pays for an equal level of highway service through its user tax payments. So the argument was made in the 1965 Federal Highway Cost Allocation Study that the basic road used in that study would provide equal service for passenger cars as the heavy duty highway actually built provides for heavy axle load vehicles. With this background in mind the 1965 Highway Cost Allocation Study considered the possible use of equivalent single axle loads as a measure to be used in distributing pavement maintenance costs. The use of ESAL's was categorically rejected in the following language: [3]

> In the case of pavement, for example, the AASHO road test equations could be used to compute the portion of the total loss in pavement serviceability caused by the axles in each axle-load group. Although this method of computing increments of cost for pavement maintenance might be appropriate if only maintenance were being considered, it is not defensible if responsibility for construction expenditures is also allocated incrementally.
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> It will be remembered that in using the AASHO road test equations to compute incremental pavement designs for the incremental study of construction costs, pavement life and serviceability were held constant throughout the calculations for each series of incremental designs. In other words, the first increment of pavement—the

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[1] See for example Chapter 1 of R.L. Lytton, et al., Effects of Truck Weights on Pavement Deterioration, Texas Transportation Institute, College Station, TX, Sept. 1981.

[2] David Luhr & B. Frank McCullough, "Development of a Rationally Based AASHO Road Test Algorithm," Transportation Research Record 760, 1980.

[3] Supplementary Report of the Highway Cost Allocation Study, House Document No. 124, U.S. Congress, February, 1965, pg. 179.

one designed for axle loads under 3,000 pounds—will deteriorate the same amount when subjected to 3,000-pound axles as the pavement for mixed traffic will deteriorate under the variety of axle loads found in mixed traffic, the total number of axle applications being the same in both cases. This is also true of the intermediate designs. It is true that the tremendous number of light axles cause negligible deterioration of the pavement used for mixed traffic but this is so only because the increments of construction cost allocated to the heavier axles provide a pavement much stronger than the light axles require.

The new Federal Highway Cost Allocation Study alleges that rehabilitation is, in fact, something different from pavement maintenance and therefore, it should be treated by a new methodology. If, in fact, rehabilitation is something basically different from pavement maintenance, then it is in effect a form of new construction and there is no reason for not developing increments of cost of this new construction which are related to the different sizes and weights of the vehicles using the highway facility. While a new incremental cost analysis may well be necessary to compute the increments of costs involved in rehabilitation and reconstruction, there is clearly no technical reason why [illegible] an incremental cost analysis could not be made.

Instead of following this procedure, which logically follows from the 1965 Highway Cost Allocation Study, the new Cost Allocation Study uses a second modified ESAL methodology to assign a disportionate cost of highway rehabilitation or reconstruction to the heaviest combination vehicles. This is not only double counting, but double counting in a manner designed to allocate the greatest portion of highway costs to the heaviest gross weight vehicles.

TREATMENT OF COMMON OR RESIDUAL COSTS

The third change in the basic incremental cost methodology which was made by the Department of Transportation in deriving its new "Recommended" cost allocation method is the substitution of so-called "residual" or "common" costs for the basic road concept of the traditional incremental cost approach. The "basic road" as defined in the 1965 Federal Highway Cost Allocation Study is based on an engineering evaluation of the kind of road necessary to provide equal service for passenger cars and light trucks alone as the pavement actually built provides for heavy duty vehicles. Thus, the basic road is a definable highway which can be constructed and used.

In contrast, the "recommended" method substitutes residual or common costs for the basic road. The new method divides all highway costs into two broad classes: (1) those costs that are directly and differentially-related to specific vehicle characteristics or their use, e.g., their sizes and weights and miles of travel, and (2) those costs that are independent of any specific vehicle characteristic or its use. The costs related to highway use are generally referred to as "attributable" costs and those independent of any specific vehicle characteristic are defined in the new study as "residual" or "common" costs.

The Department of Transportation appears to take the position that there is no really major difference between these residual costs and the basic road concept of the traditional incremental method. Further, DOT suggests that the definition of attributable costs is as specific and clear-cut as the basic road definition included in the earlier incremental study.

In fact, this is a fundamental revision of the entire incremental method and philosophy as developed in the 1965 Highway Cost Allocation Study. In the incremental method more than 80 percent of total construction costs were expended on the basic highway facility. These costs were then distributed among the vehicle classes by vehicle miles or axle miles per weight class as measures of vehicle use. The new "consumption" approach, however, defines residual costs as those costs which are unrealated to vehicle use. As a consequence, residual or common costs are only those parts of construction expenditures which are not related to vehicle operations. Consequently, in the new cost allocation procedure, only 46.7 percent of total costs in 1985 are residual costs. Thus, the new study is a completely different approach than the previous incremental analysis.

Since common costs do not vary in relation to any characteristics of vehicles or their use, the proportional responsibility of each vehicle is equal to one. The rational allocation of all such costs, consistent with the Congressional mandate, is that each vehicle bear an equal share. The existence of common costs is not evidence of a defect in attribution logic but the simple and direct result of the need in highway design and construction to deal with factors and conditions that are essentially independent of the traffic a highway is intended to carry. Therefore, the use of vehicle miles of travel as an allocater of common costs is not valid since, by definition, common costs are not related to vehicle use. Number of vehicles is the logical allocater for these costs unrelated to vehicle use.

Recently, there has been a growing debate concerning the relative merits of the incremental and relative consumption-based approaches to highway cost allocation. Crucial to the debate is the circumstance that the principle of consistency, and hence fairness, effectively demands that a basic choice be made. If the costs of construction and major rehabilitation are to be distributed differentially, then the costs of normal wear and maintenance should be shared equally among all users—and vice versa. The important policy question thus becomes quite simply: Given the present state of knowledge and all things considered, which approach provides greater assurance of a fair and reasonable cost-occasioned allocation?

To answer this query, it is appropriate to consider what lies behind the call for abandoning an incremental allocation in favor of something entirely new. There appear to be two reasons: First with the Interstate System nearing completion and many sections nearing the end of their original design lives, a significant shift is occurring in Federal highway expenditures away from new construction to repair and rehabilitation. Second is the allegation that heavy trucks are unduly damaging the highway costs—particularly the costs to repair and maintain the system. But should a shift in the mix of highway expenditures make a significant difference? We believe not. There is no reason to suppose that either method, if consistently and reasonably applied should result in radically or even significantly different long-term allocations. The object of each method is to apportion all of the costs in proportion to the way in which they are occasioned. The differences lie principally in the relative difficulty and uncertainties associated with the application of each method and whether the data exists to support the application.

A major charge levied against the incremental method holds that the selection of the passenger car as the basic vehicle is arbitrary and that adding increments of pavement thickness for successively heavier vehicles favors the heaviest vehicles because of the non-linear relationship between pavement thickness and pavement capability.[4] There are three major considerations that this objection overlooks: First, heavier vehicles pay a share of each increment of pavement thickness—including the basic roadway—up to that required by their axle weights. Second, the thicker pavements provided for heavier vehicles have greater resistance to environmental deterioration, thus extending pavement life and reducing the costs of repair and upkeep. Third, if the process were reversed and the heaviest vehicles are regarded as the "basic" vehicle with successive "increments" of highway capability being added until the needs of the passenger cars are met, an entirely different highway system would have to be taken as the basic roadway. In this case, the "basic roadway" while having thick pavements would consist only of those miles of highway—predominantly two-lane—required to connect principal industrial and commercial centers. Such a basic commercial roadway system would also have significantly different geometrics and other characteristics. While no serious attempt of an overall "truck-down" allocation is known, it is not at all unlikely that passenger cars would be found to bear a substantially greater cost responsibility for the existing highway system under this approach in contrast to the traditional incremental analysis. It should be remembered, further, that in a "truck-down" incremental analysis lower weight vehicles would still share in the joint costs of the increments of pavement appropriate to their weight classes.

While the incremental method represents a well-worked out and rational procedure based on the current theory and practice of pavement design, relative consumption-based approaches at the present time do not have either the empirical or theoretical foundations needed for a clear or non-controversial identification of relative cost responsibilities. Notwithstanding the impressive body of data produced by the AASHO Road Test, the AASHO equations cannot be used to predict the long-term performance of adequately designed pavements. The present level of knowledge about the independent effects of environmental (or non-traffic-related) factors on pavement deterioration is not sufficient to quantify how much loss of pavement serviceability should be allocated as a common cost. Under a relative consumption approach this determination of relative traffic and non-traffic-related effects is extremely important. Pavement costs represent the single largest line-item of highway expenditure, and a difference of, say, only 5 percent in the amount of deterioration properly attributable to traffic effects will have a significant impact on the assignment of cost responsibilities. The application of a consumption-based approach requires, furthermore, a sound basis for attributing the relative cost responsibilities of different vehicle weights. As presently formulated, ESALs cannot provide even an approximate measure of "pavement consumption" by different vehicle weights. The strong evidence of the enormous bias in the present formulation of axle load equivalencies cannot be ignored.

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[4] The FHWA, and some other writers on the subject, assert that the non-linear form of the design curve represents an "economy of scale" that benefits heavy vehicles in an incremental assignment. This assertion is a perversion of the concept of scale economy and is just "bad" economics. An economy of scale occurs when the production of some good in greater quantity results in a reduction of the unit cost of providing that good. Economies of scale normally result from changes in the production process or the uses of technology that lead to a reduction of labor content or a greater efficiency in the use of materials or productive machinery. While there undoubtedly exist some economies of scale in the production of highway pavements, they are not very significant and are not related to pavement thickness. It is also appropriate to point out, that in the incremental assignment, the appropriate (non-linear) design curve is applied to each vehicle weight class. The non-linearity in pavement design relationships does not bias the results and is not an economy of scale.

Given the present state of knowledge and all things considered, the only reasonable basis for highway cost allocation is a consistently applied incremental method. This conclusion has an importance extending far beyond the present Federal Highway Cost Allocation Study. Each of the individual states has the need to conduct its own cost allocation analysis, and several are currently in progress. The errors and insufficiencies in the present FHWA program, if replicated by the states can only serve to compound the inequity imposed on truck transportation and the economy it serves.

CONCLUSION

The tax increases recommended by the industry are significant—not only in absolute dollars, but also in relation to the strained present financial status of the motor carrier industry which was alluded to earlier. The truck size and weight increases that we are recommending can do their part in helping alleviate the present condition by allowing carriers needed productivity increases. Our recommended tax increases will pay fairly for these productivity gains, but excessive taxes would wholly offset any productivity gains and further depress the industry's financial conditions. The DOT tax recommendations certainly fit this category.

Even if the tax increases were based on a highway cost allocation method that was defensible, which it is not, they represent cost increases that could not possibly be absorbed. It is implied that the tax increases that are recommemded can be passed on to the consumer through increased freight charges and, therefore, we should not be alarmed. We cannot accept such a cavalier treatment of what the consumer can or cannot be called upon to pay. The pervasiveness of motor truck service, because of the role it plays in freight transportation, is such that increased costs of truck transportation mean increased costs to the consumer. This is no time to talk about increased consumer costs when we are finally bringing inflation under control. But the major point is that increased costs of any magnitude have no place in our economy when they are based on a misguided approach to highway cost responsibility calling for a punitive assessment of taxes against the trucking industry, resulting in increased cost of everything we eat, wear and use.

Finally, and of significant importance, is the fact that the tax increases at the Federal level that we will be paying are only part of the total bill for increased sizes and weights. The mandating by the Congress of minimum size and weight standards does not, at the same time, mandate the states out of the tax area, and we do not propose that this be done. We know from past history that states' size and weight increases carry a price tag at the state level. This is so whether the states act voluntarily or through a Federal requirement. Thus, the increased Federal tax payments are only part of the total price to be paid for size and weight relief.

AMERICAN TRUCKING ASSOCIATIONS, INC.,
Washington, D.C., April 17, 1980.

Hon. AL ULLMAN,
House of Representatives,
Washington, D.C.

DEAR MR. ULLMAN: The American Trucking Associations is deeply concerned about the direction and the progress of the Highway Cost Allocation Study being conducted by the Federal Highway Administration as required by section 506 of the Surface Transportation Assistance Act of 1978. As a consequence, we submitted the attached statements for the record at the Federal Highway Administration Public Hearing held on April 11, 1980 to receive comments concerning the First Progress

Report on the Highway Cost Allocation Study as submitted to the Congress March, 1980.

After the Secretary of Transportation submitted the DOT's proposed Study Plan in June of 1979, we had submitted for your information and to the Department of Transportation a report prepared for ATA by our consultant CounselTrans, Incorporated entitled "Technical Inadequacies and Biases of the Highway Cost Allocation Study Plan." Our analysis, as its title suggests, outlined a number of major weaknesses in the proposed Study Plan. As our statement submitted at the hearing on April 11 indicates, we find that the First Progress Report shows little if any change in the proposed Study Plan has occurred in the nearly one year since the DOT's plan was prepared.

The Department of Transportation indicates that the Cost Allocation Study will rely heavily on new and untested methods of highway cost allocation, despite the long established basis for conducting a traditional incremental cost analysis. Our concern over the use of this untested new cost allocation methodology has been heightened by indications from the Federal Highway Administration that the Department may issue a preliminary cost allocation study by early 1981, a year ahead of the scheduled January 15, 1982 completion date. The DOT indicates that Congress is pressing for an early highway cost allocation statement.

ATA believes that if there is to be an early statement on the Highway Cost Allocation Study, it should be conducted aong the well-established lines of a traditional incremental analysis. Development of a new and untested theory within a brief period of months would provide no time for careful review prior to submission to your Committee. On the other hand, much of the technology required to conduct a traditional incremental analysis is already available in computer systems within the Department of Transportation. Accordingly, we urge that your Committee carefully consider the proposed methodology of the Highway Cost Allocation Study so that you may be assured that a proper "costs occasioned" highway cost allocation study is conducted by the Department of Transportation We urge your careful review of these additional comments by ATA concerning the scope and progress of the study.

Sincerely yours,

BENNETT C. WHITLOCK, Jr.

Attachments.

The historical meaning of the term "cost occasioned," as used in an investigation of: "The costs occasioned in design, construction, rehabilitation and maintenance of Federal-aid highways by the use of vehicles of different dimensions, weights and other specifications, and by the frequency of such vehicles in the traffic stream;"

One of the questions which has arisen regarding the highway cost allocation study directed by the Congress in Section 506 of the Surface Transportation Act of 1978 is the definition of the term "costs occasioned," as used in Sub-paragraph (1) of the Section quoted above. The question is crucial because the primary study plan advanced by the Secretary of Transportation, in response to the Congressional directive, is based on concepts radically different than those developed and employed by the Federal Highway Administration for the Section 210 study directed by the Federal-aid Highway Act of 1956.

In general, the current DOT study plan is based on the assignment of costs in proportion to certain "relative use and relative demand" parameters. This is contrasted to the prior Section 210 study, which assigned costs on the bases of the increments of extra highway expenditures which were necessary to accommodate vehicles of different sizes and weights, a methodology called a "differential cost" or "incremental cost" allocation approach.

The specific language of Section 506 of the 1978 Act and Section 210 of the 1956 Act is attached. The pertinent language is contained in Sub-paragraphs (1) and (2) of Paragraph (a) of the 1978 Act and in Sub-paragraphs (1) and (2) of Paragraph (b) of the 1956 Act.

The referenced Sub-paragraph (2) of both acts clearly establishes the intent of the Congress as an investigation of: "the proportionate costs attributable to each class of persons (and vehicles) using such highways * * *" with reference in both Acts being to the Federal-aid systems. The 1978 Act dropped any reference to a "benefits" study, and added the term "rehabilitation," but the basic thrust of both acts is identical. Congress wants to know how vehicle size and weight influences highway expenditures.

The difference in phraseology which has become important is the language of the referenced Sub-paragraph (1) of each Act.

The 1978 Act states:

(1) The costs occasioned in design, construction, rehabilitation and maintenance of Federal-aid highways * * *"

The 1956 Act states:

(2) the effects on design, construction and maintenance of Federal-aid highways * * *"

Thus, the 1978 Act uses the phrase "the costs occasioned in * * *" as contrasted to the language of the 1956 Act which is "the effects on * * *" Since the subsequent Sub-paragraph of both Acts directs the determination of the proportionate share of such costs attributable to vehicles of different sizes and weights, it would appear that the intent of Congress was consistent in both instances.

The exposure of the Congress to the term "cost occasioned," with particular reference to its relationship to the incremental cost allocation study emanating from the 1956 Act, is well documented in the series of reports the FHWA made to the Congress during the conduct of the Section 210 study.

In total, the Secretary of Commerce made six reports on the study. The number of reports was so large because of the need to delay the primary incremental study to permit it to include the results of the AASHO Road Test.

The reports were: The First Progress Report of the Highway Cost Allocation Study, March 4, 1957; The Second Progress Report of the Highway Cost Allocation Study, March 3, 1958; The Third Progress Report of the Highway Cost Allocation Study, March 2, 1959; The Fourth Progress Report of the Highway Cost Allocation Study, March 8, 1960; The Final Report of the Highway Cost Allocation Study, January 16, 1961; and Supplementary Report of the Highway Cost Allocation Study, March 25, 1965.

An examination of each of these reports reveals that at least once in all of them, except the Fourth Progress Report, that the Secretary of Commerce used the term "cost occasioned" as a descriptive phrase for the differential cost or incremental cost study that was under way. Thus, the Congress was being told that for the purpose of highway cost allocation studies, the term "the costs occasioned" was synonymous with the term "the effects on."

Further, and most importantly, the Secretary of Commerce established that the proper use of the AASHO Road Test results in highway cost allocation, including the axle load equivalency factors, was through the engineering design procedures employed in the incremental cost study methodology. While the engineers specifically waited for the results of the AASHO Road Test before completing the incremental cost allocation study, and had the opportunity of utilizing the "relative damage" approach in response to the Congressional directive, they did not do so. And they did not do so because the "relative damage" axle load ratios had no proportional relationship to the effect that vehicle size and weight had on the costs of the design, construction and maintenance of highways. In fact, in the instance of their review of maintenance, the engineers specifically rejected the thought that the "relative damage" or "axle load equivalency factors" could be used as a direct measure of relative cost responsibility.

Selected portions of the various reports of the Secretary of Commerce re: the Section 210 study are attached to this review. The use of the term "cost occasioned" is highlighted where appropriate, as is the portion relating to "maintenance" and the "relative damage" concept.

The record is thus clear as to the historical position of the FHWA regarding the interpretation of "cost occasioned" vis-a-vis highway cost allocation methodology. It has, in fact, not changed in the current investigation, as at several places in the primary study plan, questions are raised about the "relative damage and relative demand" concepts presented to them by the Congressional Budget Office as guidelines for the conduct of the study. Specifically, on page 28 of the study plan, the statement is advanced that the "theoretical soundness of these procedures will be tested in both the main study and the supplemental studies."

Even though the posture of the FHWA in the highway cost allocation arena is well established, there can still be a body of opinion that would not necessarily coincide with the FHWA. In recognition of this, the FHWA issued a research contract, DOT-FH-11-8807, to further explore the entire issue of the proper allocation of highway costs.

The contract was with Wilbur Smith and Associates, and in 1976 the consulting firm produced a report titled, "Development of Strategies and Procedures for Highway Cost Allocation, Interim Report, Review of Procedures."

Of direct pertinence to this discussion is Chapter III, "Highway Cost Allocation to Highway Users." The discussion in this chapter identifies six major concepts that historically have been used to address the issue of determining equity in assigning highway costs among vehicles of different sizes and weights. They are: Gross ton-mile method; Operating-cost method; Space-time method; Differential-benefits method; Incremental method; and Cost-function method.

The first four concepts were identified as basically "benefits received" or "value-of-service" methods. The Incremental Method is specifically identified as based on the "cost-occasioned" principle, and the cost-function method is identified as a less complicated outgrowth of the Incremental Method. Throughout this entire chapter, the Incremental Method is consistently identified as a cost-occasioned approach.

More importantly, there is no reference to other "cost occasioned" methodologies, such as the primary methodology advanced by the Secretary of Transportation in response to the language of Section 506, although the Space-Time approach was said to have some similarity.

With such a blanket agreement as to the meaning of "cost occasioned," as related to highway cost allocation studies, it is a proper question to ask how another definition could be considered.

The first record I have of the new approach is in the series of studies conducted by the Urban Institute into the issue of highway cost allocation, under contract with the Association of American Railroads. Specifically, Task II, "An Analysis of Road Expenditures and Payments by Vehicle Classes," first advances the approach adopted by the CBO in their guidelines. In many respects, the Urban Institute based their rationale on economic theory rather than engineering design.

In these studies, the authors define those costs which can be traced to a specific class of user as "occasioned costs" and those that cannot be so identified as "common costs." The procedures advanced as allocation methodologies are the same "relative damage" and "relative demand" approach contained in the CBO Guidelines, and subsequently in the DOT primary study plan. These studies by the Urban Institute were published in March of 1977.

SURFACE TRANSPORTATION ASSISTANCE ACT OF 1978

SEC. 506. REQUIREMENTS FOR A COST ALLOCATION STUDY.

(a) STUDY DIRECTED.—The Secretary of Transportation is hereby authorized and directed, in cooperation with the State highway departments, to undertake a full and complete investigation and study of—

(1) the costs occasioned in design, construction, rehabilitation and maintenance of Federal-aid highways by the use of vehicles of different dimensions, weights, and other specifications, and by the frequency of such vehicles in the traffic stream;

(2) the proprotionate share of such design, construction, rehabilitation, and maintenance costs attributable to each class of persons and vehicles using such highways; and

(3) the need for long-term or continuous monitoring of roadway deterioration to determine the relative damage attributable to traffic and environmental factors.

(b) EVALUATION BY CONGRESSIONAL BUDGET OFFICE.—To assist the Secretary of Transportation in the conduct of the investigation and study authorized and directed by subsection (a) of this section, the Congressional Budget Office is hereby authorized and directed to make an evaluation of—

(1) the procedures to be employed in determining the equitable allocation of highway costs;

(2) the information to be collected to apply the procedures identified pursuant to paragraph (1);

(3) any special studies essential to the conduct of the investigation which can be identified and completed within the deadlines established by this section; and

(4) the procedures to be employed to ensure a continuing equitable allocation of highway costs after study termination.

The Congressional Budget Office shall report its findings to the Congress and to the Secretary of Transportation within 90 days after the date of the enactment of this section. These findings shall be employed by the Secretary as guidelines in the design of the investigation and study authorized and directed by subsection (a) of this section.

(c) REPORTS.—

(1) Within 180 days after the date of the enactment of this section, the Secretary of Transportation shall report to the Congress on a plan for the investigation and study. Such plan shall include, but not be limited to, the data to be gathered; the sources of such data; the method to be used to allocate costs; the method to be used to attribute revenues; the criteria to be employed in arriving at an equitable distribution of the tax burden; the agency or agencies responsi-

ble for performance and review of the study; a projected schedule for study performance; and the estimated costs of the study.

(2) On or before January 15, 1980, and January 15, 1981, the Secretary of Transportation shall report to the Congress the progress which has been made in carrying out the study and investigation required by this section. Such progress reports shall include, but not be limited to, a discussion of any changes from the study plan as submitted under provisions of this section and of preliminary findings of the investigation.

(3) The Secretary shall report to the Congress the findings and recommendations of the study no later than January 15, 1982. Such recommendations shall include any alternative tax structures which the Secretary believes would more nearly achieve an equitable distribution of the tax burden among classes of persons and vehicles using Federal-aid highways, and the projected impact of such structures on affected industries and other users.

LANGUAGE IN THE 1956 FEDERAL-AID HIGHWAY ACT DIRECTING THE HIGHWAY COST ALLOCATION STUDY—FIRST PROGRESS REPORT OF THE HIGHWAY COST ALLOCATION STUDY

INTRODUCTION

In pursuing a task of such grave importance as the inquiry called for under section 210 of the Highway Revenue Act of 1956 it is imperative that the full significance of the congressional mandate should be understood. It is proper therefore to repeat at the outset of this report the text of that section, which is as follows:

SEC. 210. INVESTIGATION AND REPORT TO CONGRESS.—

(a) PURPOSE.—The purpose of this section is to make available to the Congress information on the basis of which it may determine what taxes should be imposed by the United States, and in what amounts, in order to assure, insofar as practicable, an equitable distribution of the tax burdens among the various classes of persons using the Federal-aid highways or otherwise deriving benefits from such highways.

(b) STUDY AND INVESTIGATION.—In order to carry out the purpose of this section, the Secretary of Commerce is hereby authorized and directed in cooperation with other Federal officers and agencies (particularly the Interstate Commerce Commission) and with the State highway departments, to make a study and investigation of—

(1) the effects on design, construction, and maintenance of Federal-aid highways of (A) the use of vehicles of different dimensions, weights, and other specifications, and (B) the frequency or occurrences of such vehicles in the traffic stream.

(2) the proportionate share of the design, construction, and maintenance costs of the Federal-aid highways attributable to each class of persons using such highways, such proportionate share to be based on the effects referred to in paragraph (1) and the benefits derived from the use of such highways, and

(3) any direct and indirect benefits accruing to any class which derives benefits from Federal-aid highways, in addition to benefits from actual use of such highways, which are attributable to public expenditures for such highways.

(c) COORDINATION WITH OTHER STUDIES.—The Secretary of Commerce shall coordinate the study and investigation required by this section with—

(1) the research and other activities authorized by section 10 of the Federal-Aid Highway Act of 1954, and

(2) the tests referred to in section 108(k) of this Act.

(d) REPORTS ON STUDY AND INVESTIGATION.—The Secretary of Commerce shall report to the Congress the results of the study and investigation required by this section. The final report shall be made as soon as possible but in no event later than March 1, 1959. On or before March 1, 1957, and on or before March 1, 1958, the Secretary of Commerce shall report to the Congress the progress that has been made in carrying out the study and investigation required by this section. Each such report shall be printed as a House document of the session of the Congress to which report is made.

(e) FUNDS FOR STUDY AND INVESTIGATION.—There are hereby authorized to be appropriated out of the Highway Trust Fund such sums as may be necessary to enable the Secretary of Commerce to carry out the provisions of this section.

SUPPLEMENTARY REPORT OF THE HIGHWAY COST ALLOCATION STUDY

LETTER OF TRANSMITTAL

THE SECRETARY OF COMMERCE,
Washington, D.C., March 24, 1965.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Transmitted herewith is the Supplementary Report of the Highway Cost Allocation Study which is submitted pursuant to the provisions of section 210 of the Highway Revenue Act of 1956 (70 Stat. 387), as amended by section 1 of the act approved August 28, 1958. This report is a supplemental to the final report of the highway cost allocation study which was submitted to you on January 13, 1961, and published as House Documents 54 and 72, 87th Congress, 1st session. This submittal completes the work undertaken in compliance with section 210 of the Highway Revenue Act of 1956.

The purpose of this study as set forth in subsection (a) of said section 210 is to make available to the Congress information on the basis of which it may determine what taxes should be imposed by the United States, and in what amounts, in order to assure, insofar as practicable, an equitable distribution of the tax burden among the various classes of persons using the Federal-aid highways or otherwise deriving benefits from such highways. In order to carry out this purpose, the Secretary of Commerce, in cooperation with other Federal officers and agencies and the State highway departments, was directed to make a study and investigation of—

(1) the effects on design, construction, and maintenance of Federal-aid highways of the use of vehicles of different dimensions, weights, and other specifications, and the frequency of occurrences of such vehicles in the traffic stream;

(2) the proportionate share of the design, construction, and maintenance costs of the Federal-aid highways attributable to each class of persons using such highways; and

(3) any direct and indirect benefits occurring to any class, in addition to benefits from actual use of such highways, which are attributable to public expenditures for these highways.

The Secretary of Commerce was also required to coordinate this study with the tests referred to in section 108(k) of the Federal-Aid Highway Act of 1956 conducted by the Highway Research Board of the National Academy of Sciences, in cooperation with the Bureau of Public Roads (generally known as the AASHO road test), carried out at Ottawa, Ill. The analysis of results of the AASHO road test had not been completed at the time of submittal of the final report of the highway cost allocation study. The supplementary report was undertaken after completion of the AASHO road test and the publication of its findings. These findings were utilized in the allocation, among vehicles of different dimensions and weights, of Federal-aid highway cost responsibility by the incremental method, which purports to distribute cost responsibility among vehicle groups in proportion to the costs occasioned by their occurrences in the traffic stream. A revised allocation by the differential-benefit method, which purports to distribute cost responsibility among vehicle groups in proportion to the benefits derived from their use of the highways, was also completed.

Sincerely yours,

JOHN T. CONNOR,
Secretary of Commerce.

[In percent]

Federal-aid system	Federal share of construction exenditures	Total maintenance costs
Interstate	74.1	14.1
Federal-aid primary	17.7	37.5
Federal-aid secondary	8.2	48.4
Total	100.0	100.0

Nearly three-fourths of the Federal-aid expenditures are concentrated on the 41,000-mile Interstate System but this limited mileage accounts for only 14 percent of the maintenance costs. At the other end of the scale, only 8 percent of the construction expenditures are spread over the extensive Federal-aid secondary system which generates nearly half the maintenance costs.

Incremental variations of maintenance costs

To the extent that maintenance expenditures are incurred to repair the damage or deterioration caused by traffic it is possible to take the position that increments of maintenance cost stem from differences in the rate at which vehicles of different types and weight cause deterioration. In the case of pavement, for example, the AASHO road test equations could be used to compute the portion of the total loss in pavement serviceability caused by the axles in each axle-load group. Although this method of computing increments of cost for pavement maintenance might be appropriate if only maintenance were being considered, it is not defensible if responsibility for construction expenditures is also allocated incrementally.

It will be remembered that in using the AASHO road test equations to compute incremental pavement designs for the incremental study of construction costs, pavement life and serviceability were held constant throughout the calculations for each series of incremental designs. In other words, the first increment of pavement—the one designed for axle loads under 3,000 pounds—will deteriorate the same amount when subjected to 3,000-pound axles as the pavement for mixed traffic will deteriorate under the variety of axle loads found in mixed traffic, the total number of axle applications being the same in both cases. This is also true of the intermediate designs. It is true that the tremendous number of light axles cause negligible deterioration of the pavement used for mixed traffic but this is so only because the increments of construction cost allocated to the heavier axles provide a pavement much stronger than the light axles require. It is evident that the only increments of maintenance cost that are of concern in an incremental study of both construction and maintenance costs are those which reflect differences in the cost of maintaining highways designed for and used by light axles and those designed for an used by each successively heavier group of axles.

Appraising the effect that variation in vehicle size or weight has on highway maintenance and the concomitant costs differs from a similar evaluation of capital outlays for construction. The cost of construction items is related to the design standards used. The differential requirements of vehicles of different types, sizes, and operating characteristics are considered in the structural and geometric * * *

THE FEDERAL HIGHWAY ADMINISTRATOR,
Washington, February 27, 1957.

The Honorable, the SECRETARY OF COMMERCE,
Washington, D.C.

DEAR MR. SECRETARY: I transmit herewith the first progress report on the study and investigation required under section 210 of the Highway Revenue Act of 1956, approved June 29, 1956. This report was prepared in compliance with section 210 (d) of the act, which provides that reports of progress of the study shall be transmitted to the Congress not later than March 1 in each of the years 1957 and 1958, and that a final report shall be transmitted not later than March 1, 1959.

The objective of this study is to provide the Congress with information on the basis of which it may determine what taxes should be imposed and in what amounts, in order to assure, insofar as practicable, an equitable distribution of the tax burden of the support of the Federal-aid highway program. In pursuance of this objective it will be necessary to inquire into both the highway costs occasioned and the benefits derived by the use on the Federal-aid highways of vehicles of different dimensions, weights, and other specifications. It is further directed that a study be made of any benefits, direct or indirect, that may be derived by any class from public expenditures on the Federal-aid highways, other than through direct use of such highways.

Following an introduction and summary, the body of the report is in three sections. Part I is a treatment of the problem of equity in highway taxation, with special emphasis on its Federal aspects. Part II is a discussion of the methods of research and analysis by which it is hoped that equitable allocations of cost responsibility for support of the Federal-aid highway program may be derived. In Part III the planning and organization of the project are described and the work accomplished to date is summarized.

Sincerely yours,

B. D. TALLAMY,
Federal Highway Administrator.

INCREMENTAL DESIGN STANDARDS

This phase of the study is necessary to those analyses of costs occasioned that seek an allocation among size and weight groups of vehicles on the basis of their differential design and construction requirements. Some of these were described in detail at pages 64–89 of the first progress report. An inquiry designed to elicit, for each Federal-aid system and road type, the following information regarding the design and cost of roadway items other than structures was prepared during the past year:

1. The standard designs used for mixed traffic, classified according to those used for high, normal, and low percentages of heavy vehicles.
2. Judgment as to the designs that would be adequate for traffic in which the greatest loads would be those of the heavier 2-axle- 4-tire trucks.
3. Judgment as to the minimum practical design for traffic consisting of passenger cars and very light trucks of similar loading and operating characteristics.
4. Construction quantities and costs per mile typical of the designs called for in items 1 through 3, above.
5. Estimates on the designs and costs required to accommodate single and tandem axle loads heavier than those now permitted in most States; namely, the 22,400- and 30,000-pound single-axle loads and the 40,000- and 48,000-pound tandem-axle loads to be employed in the AASHO road test.
6. Subsidiary information as follows: (a) Opinion as to the relative pavement-strength requirements of single and tandem axles and (b) the findings of research or experience pertinent to the inquiry.

The information obtained by means of this inquiry, together with the findings of road test 1, Maryland, the WASHO road test, and other research, will be used as a guide in arriving at incremental cost factors that can be used to break down the estimated cost of improving the Federal-aid systems into the increments attributable to vehicles of different types, dimensions, and weights.

The inquiry was sent to the Public Roads field offices for distribution to the State highway departments by circular memorandum dated January 24, 1958. It was distributed to national associations and other groups having a commercial, economic, governmental, or social interest in the highway cost allocation study during February 1958. Inquiries dealing with bridge costs and maintenance costs are in the process of preparation and will be distributed soon.

REPORT OF THE HIGHWAY COST ALLOCATION STUDY

Plans for completion of the highway cost allocation study

The extension of the time limit for the final report of the study to January 3, 1961, has made it possible to conduct a more thorough analysis of the vast body of data collected for use in this study. The results of the AASHO road test in Illinois will become available for use in the allocation of costs in proportion to the highway costs occasioned by vehicles of different dimensions and weights. Further work in the field of vehicular or user benefits will insure their accurate evaluation for use in the allocation of costs in proportion to the benefits received by the users of vehicles in different size and weight groups. Further results from economic impact studies, together with the vehicular benefit study, will help to throw more light on the relevance of highway benefits, both user and nonuser, to the highway cost allocation problem.

* * * the effects on design, construction, and maintenance of Federal-aid highways of (A) the use of vehicles of different dimensions, weights, and other specifications, and (B) the frequency of occurrence of such vehicles in the traffic stream.

The instructions regarding the study of benefits, on the other hand, apply to users and nonusers alike. This difference between the two directives is not construed to preclude some inquiry into highway costs that may have been occasioned, in part at least, by nonuser interests or objectives; nor to prohibit the employment of alternative methods of study (e.g., the ton-mile study, the relative-use study, and the earnings-credit study, described later) that are only indirectly related to highway cost and benefits but have the sanction of use in previous highway finance and taxation studies.

On the subject of the cost responsibility of vehicles of different "dimensions, weights, and other specifications," the implication of subsections (b)(1) and (b)(2) is that the study must mediate between findings with respect to cost occasioned and findings with respect to benefits derived, by the use of such vehicles. To accomplish this a method of averaging weighted by consideration of the relative accuracy and authoritativeness of the alternative solutions achieved, is the indicated procedure. In the actual working out of the analysis the use of four methods of allocating motor-vehicle cost responsibility has been of great aid in arriving at reasonable findings.

MAINTENANCE COSTS

Subsection (b)(1) speaks of the effects on maintenance costs as well as those on design and construction; and subsection (b)(2) treats of "* * * the proportionate share of the design, construction, and maintenance costs * * *". Federal highway aid is authorized only for the construction (including right-of-way) of highways on the Federal-aid systems. The problem of allocation of the tax burden has been restricted to a proper assignment of responsibility for construction costs. It is clear, however, that the Congress wished to be informed of the relative responsibility of vehicles of different dimensions and weights for the costs of maintaining the Federal-aid systems. A special substudy was made of this subject.

BENEFITS TO OTHER THAN HIGHWAY USERS

It is well to look closely into the mandate of section 210 on the subject of the relative benefits derived by motor-vehicle users and other interests. The statement of purpose in subsection (a) defines as an objective the—

> * * * equitable distribution of the tax burdens among the various classes of persons using the Federal-aid highways or otherwise deriving benefits from such highways.

Subsection (b)(3) requires the making of an investigation of—

> * * * any direct and indirect benefits accruing to any class which derives benefits from Federal-aid highways, in addition to benefits from actual use of such highways, which are attributable to public expenditures for such highways.

Thus the motor-vehicle users are brought into bold contrast with other beneficiaries of the highways, and the problem of an equitable distribution of the highway tax burden between them is brought into question.

Chairman **Rostenkowski**. Mr. Heldenfels, you may proceed.

STATEMENT OF H. C. HELDENFELS, PRESIDENT, ASSOCIATED GENERAL CONTRACTORS OF AMERICA, ACCOMPANIED BY DOUG PITCOCK, VICE PRESIDENT, AND RICHARD PEPPER, SENIOR VICE PRESIDENT

Mr. **Heldenfels**. Mr. Chairman, members of the committee, I am H. C. Heldenfels, president of the Heldenfels Bros., Inc., of Corpus Christi, Tex. I am also president of Associated General Contractors of America, which is a leading general contracting association representing 32,000 contractors and affiliated businesses.

I am accompanied by Richard Pepper, chairman of the board of the Pepper Construction Co., Chicago, Ill., senior vice president of Associated General Contractors, and Doug Pitcock, president of William Bros. Construction Co., Houston, Tex. Mr. Pitcock is the association's vice president. We are pleased to appear before you.

Mr. Chairman, much has been said of late about the accelerating deterioration of our Nation's highways and bridges, as well as the overall inadequate condition of our country's public facilities. America's construction contractors provide a unique perspective on the decay of the Nation's public facilities. We built them. We can repair them. And we know the dangers and costs of continued neglect.

Accordingly, we are concerned. America's public facilities are rapidly changing from one of this Nation's greatest assets to one of its largest liabilities because the country has failed to maintain its investment in them. This is clearly indicated by the fact that the Nation's spending on public facilities plummeted from 3.6 percent of the gross national product in 1965 to 1.7 percent in 1980.

With the chairman's permission, I would like to submit a paper prepared by the Associated General Contractors of America which sets forth the reasons why our industry is concerned about the condition of America's public facilities.

Chairman ROSTENKOWSKI. Without objection, it will be made part of the record.

Mr. HELDENFELS. This report, which we have prepared for the Congress, details over $900 billion in public facilities construction and reconstruction needs, not just on our highways and bridges, but also in water supply, sewage treatment, jails, hospitals, dams, ports, waterways, transit, and other public investments, on which the very existence and expansion of our Nation's communities depend.

The most explicit example of the deteriorating condition of our Nation's public facilities is found in our highway transportation network. At this point I would like to have our association's vice president, Doug Pitcock, speak to the capital needs of our highway system, and the investment levels required to protect our Nation's investment in that system.

Mr. PITCOCK. Mr. Chairman, if I may, I would like to preface my remarks with some basic principles that AGC strongly believes in. First, this Nation cannot stand further deterioration of its highway system. Second, the economy of the country can stand no more loss of productivity due to increasingly deteriorated and congested travelways.

Third, our citizens should not have to tolerate any further reduction in their mobility. Fourth, the economy is dependent on growth, and an adequately maintained transportation system is necessary to provide for and meet the demands of that growth.

Fifth, the defense system must include a completed, upgraded and well-maintained national system of highways.

We believe a sound highway transportation system is a prerequisite to a prosperous and growing nation. Even with all the advances made in providing mass transportation, reviving railroads and improving aviation, America's highways are, and will always remain, the backbone of the Nation's transportation system. But that backbone is being seriously weakened by deterioration—deterioration that is being caused by inadequate levels of investment, especially at the Federal level.

And what have been the results? Consider the following: 10 percent of the Interstate System—some 4,000 miles—needs resurfacing now; 65 percent of the Interstate System—more than 26,000 miles—will require repair work by 1995; 50 percent of the primary system will reach the end of its design life during the 1980's—a tenfold increase in deteriorated pavement since 1978; 40 percent of our bridges were built before 1940 and are fast reaching their design life of 50 years; one of every five bridges in this country is structurally deficient; that is, it is restricted to light vehicles only, or it is closed, or it is in need of immediate rehabilitation to keep it open.

All of this, and the Federal highway user fee has not been increased in 23 years. Today the 4 cents per gallon motor fuel fee purchases less than one-fourth the road and bridge improvements it purchased in 1959, when it was instigated.

We in the Associated General Contractors have long recognized the need to increase Federal highway user fees to bring the Federal-aid highway program to the level that transportation experts at all levels of government now agree is required to protect this Nation's investment in its highway system.

In fact, in September before the Senate Transportation Subcommittee, our association testified on the need for a Federal-aid highway program level of at least $12 billion annually, and we pointed out that:

> The needs justify, indeed demand, that at least a doubling of the current fee on motor fuel be the absolute minimum increase deemed acceptable at this juncture. A lesser amount will simply fail to do the job.

Now, 2 years and 3 months of inadequate Federal investment levels later, we still believe that the needs justify, indeed demand, a Federal-aid highway program level of at least $12 billion, with that increase being funded through an increase in Federal highway user fees, as contemplated in the surface transportation legislation now before the Congress and as proposed by the administration.

We therefore respectfully urge this committee to approve a measure extending the highway trust fund and increasing highway user fee revenues accruing to the fund in amounts that will support the multiyear surface transportation legislation currently being advanced in the Congress.

Before closing, I would be remiss if I did not comment on the current state of the construction industry and the industry's ability to handle the increased workload that would result from passage of an enhanced Federal-aid highway program.

Mr. Chairman, there is no question in our minds that, with the construction industry currently operating far below capacity, with contractor failures at an all-time high, and with 1.3 million construction workers looking for work, the construction industry can efficiently and effectively handle a Federal-aid highway program—right now—of $12 to $13 billion.

And there is also no question as to whether the States have the ability to handle the increased program level. The American Association of State Highway and Transportation Officials is currently conducting a survey to determine how much Federal aid for highways the State departments of transportation could obligate this year if authorizations were increased by Congress and obligation controls lifted.

To date, 46 States have responded that they could obligate $15.3 billion in fiscal year 1983 and $16.7 billion in fiscal year 1984. And yet, the current program authorization for fiscal year 1983 is only $5.1 billion.

This survey proves that which we in the transportation community have long argued—recent Federal-aid highway program investment levels have been woefully inadequate and they have resulted in a tremendous backlog of unmet highway and bridge construction and rehabilitation needs.

The AASHTO survey also dispels the myth that it would take quite a long time for the highway program, once having received an infusion of dollars, to "crank up" and create jobs. The 46 State highway departments responding to the survey indicate that they could let and have underway within 90 to 120 days of enactment of an increased surface transportation program, over 4,300 additional Federal-aid highway projects, totaling $5.6 billion in additional dollars.

I stress that these are projects above and beyond the States currently planned programs—projects that would have been constructed by now but for the lack of sufficient Federal aid.

Mr. Chairman, we believe the Federal Government has a responsibility to protect this Nation's highway system from further deterioration.

Action must be taken now to avoid the much higher costs that will inevitably result should our highway and bridge needs continue to be deferred.

Action must be taken now to enhance economic recovery. We believe construction is the engine that drives the economy, as it directly and indirectly employs more than 22 million Americans.

And action must be taken now to meet the basic needs and safety concerns of the traveling public.

Thank you very much.

Chairman Rostenkowski. Thank you.

[An attachment to the prepared statement follows:]

OUR FRACTURED FRAMEWORK

WHY AMERICA MUST REBUILD

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
1957 E STREET, NW WASHINGTON, DC 20006

America's Infrastructure: A Definition

The nation's infrastructure is its system of public facilities, both publicly and privately funded, which provide for the delivery of essential services and a sustained standard of living. This interdependent, yet self-contained, set of structures provides for our mobility, shelter, services and utilities. It is the nation's highways, bridges, railroads and mass transit systems. It is our sewers, sewage treatment plants, water supply systems and reservoirs. It is our dams, locks, waterways and ports. It is our electric, gas and power producing plants. It is our court houses, jails, fire houses, police stations, schools, post offices and government buildings.

America's infrastructure is the base upon which society rests. Its condition affects our life styles and security and each is threatened by its unanswered decay.

Executive Summary

America has no acceptable alternative to urgently developing a program to rebuild the nation's public facilities, the skeleton of public works that provides society's basic and supporting services.

The almost daily casualty list of failing public facilities includes highways, bridges, water supply systems, sewage treatment plants, pipelines and dams. But beyond that, the victims of neglect include schools, utilities, parks, hospitals, libraries, firehouses and jails. These facilities and services touch every aspect of everyone's life.

The presently identifiable program cost to meet presently identified needs is approximately $1 trillion, according to estimates compiled by the Associated General Contractors of America (AGC).

The AGC, as a result of its study and the massive social and economic consequences of public facility deterioration, is initiating a continuing program of monitoring and public information to focus national attention on three areas the AGC considers vital.

The AGC believes there must be a national agenda to:

- Maintain a carefully inventoried list of public works needs and costs against which national and regional priorities can be set and funding can be allocated.
- Establish a five-year plan to set public works construction goals to meet existing needs and ensure economic growth.
- Blend traditional and alternative financing strategies as needed, to provide necessary funding for the program.

There can be no question about the national urgency. The problems are not merely serious. Many are beyond the point where deterioration begins to accelerate at alarming rates, and the hazards begin to compound themselves. The percentages of facilities in serious decay suggest the brutal reality:

- Nearly half of the nation's bridges are too weak to adequately handle the traffic loads.
- Almost one of every two paved miles of roads needs to be resurfaced or completely rebuilt.
- About 13 percent of the country's aging dams are classified as "high hazard."
- America's railroads must replace half of their ties over the next five years.
- Nearly half of the nation's sewage treatment plants are preventing economic growth because of inadequate capacity.
- Municipal water systems throughout the country are collapsing, threatening the quality of the water people consume, or failing to keep up with demand.

While the cost of repairs is great, there is no alternative and the cost of delay is too high. The alternative to not meeting the challenge is a continued and rapidly increasing deterioration in the nation's economic base, in the quality of life, and in the public's health. The General Accounting Office, for example, sees drinking water contamination "emerging as one of the most serious health and environmental problems facing our nation during the '80s."

A public facilities renewal program will also provide immense benefit to the economy and increased employment. Unemployment, which has weakened the nation's workforce, has hit nearly one million persons in the construction industry, about one out of every five. Each $1 billion spent on construction creates tens of thousands of on-site jobs and has a multiplier effect in related industries and fields that benefit from construction spending. For example, $1 billion spent on rebuilding our nation's highways would generate 13,100 on-site jobs and 63,000 overall.

The public works network has been weakening as the capital spending of state and local governments has been steadily dropping for 15 years. State and local governments have become reliant on federal participation, which has soared from 10 to 40 percent during the last 24 years, just as the federal level is sharply reducing its commitments.

The resulting funding crunch for increased capital spending is hitting at a time when traditional financing is proving to be inadequate. Governments are being forced to look for creative ways to enter bond markets, to "contract out" public works projects to reduce costs, to hire or lease services and facilities from private owners, and to set up independent authorities to operate public facilities.

The complexity and scope of the nation's crumbling public facilities are a crisis and an opportunity. The crisis, as it becomes increasingly clear, threatens in very direct ways the nation's health, its safety, its economy, its workers, and its ability to meet the needs of today and tomorrow.

The opportunity is equally clear. It is to revitalize the national delivery of the vital services its citizens demand and to put them on a sounder financial base.

The needs could not be clearer, or more immediate. The price of delaying the task increases the ultimate cost to everyone.

OUR FRACTURED FRAMEWORK

Estimated Costs and Background

HIGHWAYS

Estimated Costs: $315.2 billion to eliminate highway deficiencies through 1995.

Background: Investments in highways are not keeping pace with the rates of inflation and deterioration. Overall pavement age is increasing; resurfacing and rehabilitation needs are growing; urban congestion is mounting. The cost is estimated in the U.S. Department of Transportation's latest report to Congress, exclusive of identified bridge needs.

BRIDGES

Estimated Costs: $47.6 billion to replace or rehabilitate **currently** deficient bridges.

Background: About 45 percent of the bridges evaluated by the Federal Highway Administration for its 6th Annual report to Congress are considered deficient or obsolete. At the rate the nation is repairing its bridges, it would take 287 years to catch up with existing problems. Nearly half the bridges inventoried are within 10 years of their average design life expectancy of 50 years.

MASS TRANSIT

Estimated Costs: $36.6 billion over the next 10 years.

Background: Maintenance commonly is deferred when there are funding shortfalls. Funds are needed to modernize existing rail systems, to complete new systems and planned extensions, and to improve bus facilities. Private industry sources and public agencies charged with mass transit responsibilities identify these needs as basic.

RAILROADS

Estimated Costs: $94 billion over a 10-year period.

Background: The poor financial condition of railroads has led to critical delays in spending for maintenance. Ties have not been regularly replaced since 1953, and 50 percent of all ties should be replaced by 1988. According to the American Association of Railroads, railroads continue to lose business as their facilities deteriorate, further worsening their financial conditions.

LOCKS

Estimated Costs: $9.7 billion over the next 20 years to repair locks and modernize those that have become technologically obsolete.

Background: Bottlenecks at the nation's locks are seriously affecting shipping, particularly farm products and coal. According to a recent Corps of Engineers' Waterway Study, the average age of 184 principal locks on the inland waterway system is 40 years old, with 56 that are over 50 years old and are obsolete. Many locks in the next few years are expected to be congested or to actually restrict waterway traffic.

WATERWAYS

Estimated Costs: $32 billion for dredging and maintaining facilities and canals over the next 20 years.

Background: The waterway system, again from the Corps' Waterway Study, was extended and developed in the period following World War II, without much attention to maintenance. Rehabilitation programs are needed to improve the efficiency and reliability of waterway transportation.

PORTS

Estimated Costs: $3.5 billion to deepen ports over the next 20 years.

Background: The General Accounting Office has cited the need to deepen ports as the most urgent navigation issue facing Congress. Over the next 20 years, the United States will find itself at a competitive disadvantage with other coal exporting countries unless it deepens 10 to 20 ports enough to handle deep-draft ships.

SEWAGE TREATMENT

Estimated Costs: $119 billion to meet the goals of the Environmental Protection Agency's 1980 Needs Survey to the year 2000.

Background: The nation's massive sewer problems not only involve deterioration through age and neglect, many cities are faced with sewers that combine sanitary sewage and storm water, creating frequent storm water overflows. Several studies have indicated sewage treatment facilities in many cities are operating at or near capacity, which restricts or even prevents economic development.

WATER SUPPLY/ DISTRIBUTION

Estimated Costs: $110 billion over the next 20 years for cities over 50,000 population to maintain their water systems.

Background: The pressure on the nation's water supply is increasing from almost all segments of the economy — agriculture, manufacturing, energy production, and public consumption. These needs were first identified in "America in Ruins." In addition to the difficulty of assuring adequate supplies, many of the nation's cities are suffering serious losses of water through broken and badly leaking distribution systems. Public health and the future of the nation's economic development are directly connected to the pipes that carry its water supply.

DAMS

Estimated Costs: $119.4 billion to repair currently hazardous dams.

Background: About 13 percent of the nation's dams surveyed by the Army Corps of Engineers have been classified as "high hazard" because of their potential to endanger human life and damage property. While no cost assessment has been done for all dams, those under the jurisdiction of the Bureau of Reclamation require an average investment of $13.5 million; applied to the 8,794 high-hazard dams identified by the Corps of Engineers, the total cost of their repair reaches $119.4 billion.

PUBLIC BUILDINGS

Estimated Costs: $9.4 billion to meet the needs of the properties owned by the General Services Administration, the Veterans Administration hospitals and the U.S. Postal Service over the next five years.

Background: Age and deterioration have hit all three government services. About 60 percent of the buildings owned by the GSA are more than 30 years old. On the VA's list of top 10 projects, the facilities have an average of over 50 years. Many others need improvements to keep up with modern medical standards.

AIRPORTS

Estimated Costs: $13.5 billion to improve and expand the nation's airports over the next 10 years.

Background: Due to projected increases both in commercial and general aviation demands for airport space and air travel lanes, the nation's airports are growing more congested. The National Airport System Plan calls for $13.5 billion in improvements over the next 10 years to meet these needs.

Introduction

- The storm drains in New York City couldn't handle the volume of a summer rainstorm and run-off caused untreated sewage to flow into nearby rivers.
- A dam, rated hazardous two years ago, bursts in Colorado. Four people are killed, and survivors are left with millions of dollars in damages.
- Courts across the country release criminals early from prisons because of overcrowded and antiquated facilities.
- A bridge near Toledo is weight-restricted and heavy commercial traffic faces a 23-mile detour into the city. Consumers pay the increased costs for goods and services.
- An 80-year old water tunnel breaks and more than 300,000 New Jersey residents line up for nearly a week to get fresh water from National Guard supply trucks.
- County officials in Arizona, facing massive highway repair bills, rip up 250 miles of potholed highways and replace them with gravel roads.

These are only a few of the recent headlines which are painting a picture of the rapid deterioration of America's infrastructure.

The nation's highways, bridges, water supply systems, jails, sewage treatment plants, pipelines, dams, reservoirs, schools, parks, public buildings and other facilities are grabbing public attention. But not because they have become the physical basis for an efficient modern society. Rather, they are falling apart from age, neglect and disrepair.

What is the nation's infrastructure? It consists of all public facilities which provide the nation's standard of living and continuity of its services. It is a self-contained, yet interdependent, set of structures providing mobility, shelter, services and utilities. In a strict sense, our infrastructure is not just the highways and bridges or pipelines and reservoirs, it is also our post offices and parklands, our schools and our subways. These are the physical structures which make our society work.

But these facilities share something else — they are all suffering from severe and mounting deficiencies. Consider these facts:

- Some 13 percent of the nation's aging dams are classified "high hazard."
- Municipal water systems require $100 billion by 1990 to keep pace with demand.
- Nearly half of the nation's sewage treatment plants are preventing economic growth because of inadequate capacity.
- Nearly one of every two paved miles of highways needs resurfacing or complete reconstruction.
- Nearly half of America's bridges are too old or too weak to adequately handle today's traffic.
- New York's subway breakdowns have doubled in the last seven years.
- America's rail network must replace half of its ties over the next five years.
- Fifty-six of the 184 principal locks on the nation's inland waterway system — nearly one-third — will require major repairs over the next 20 years.
- Deep water ports, a key to exporting American goods, have insufficient capacity and are stifling trade. A dozen ports will need dredging over the next 20 years at a cost of $200 million to $500 million each.

But meanwhile:

- Capital investment in public facilities at all levels of government has fallen annually for 15 years. Since 1965, America has cut in half its revenue commitment to infrastructure.
- Federal construction grants, as a total share of grants to state and local governments, fell by 43 percent from the mid '60s to the mid and late '70s.

This report details the nation's infrastructure needs. It presents a portrait of our aging and decaying physical base — our infrastructure.

But the view is not all grim. This report also outlines strategies employed by some levels of government to reverse the trend. It also discusses the economic benefits from public and private infrastructure projects that are rebuilt and rehabilitated.

In surveying "Our Fractured Framework," the needs for construction are obvious. The benefits of construction are also obvious. And economically, we cannot afford to do less.

Total Program Needs.

The documented public works needs across the country are vast and growing. Viewed collectively, along with private investments in projects such as hospitals, the total needs are staggering. Estimates run from $400 billion to $3 trillion over the next 20 years. This report attempts to avoid the pitfalls of projection by dealing only with established needs, which are staggering. They total nearly $1 trillion worth of construction work. **Total** public construction spending was only $53.6 billion for all levels of government in 1981. And 1982 is running nearly 20 percent below that level.

A composite picture of the state of the union reveals the following:

Need	**Estimated Cost** (in billions $)
Water supply/distribution (urban only)	$110.0
Dams	119.4
Sewage	119.0
Public buildings (GSA, VA and Post Office)	9.4
Highways	315.2
Bridges	47.6
Airports	13.5
Mass transit	36.6
Railroads	94.0
Locks	9.7
Waterways	32.0
Ports	3.5
TOTAL	**$909,900,000,000.**

These needs do not include the full range of private hospital and health facility needs, or the growing rural water delivery system needs. They also do not include a cost associated with the rehabilitation, expansion and construction of police stations, fire houses, libraries, prisons, jails and many other public buildings not yet surveyed and spread through every level of government.

Clearly, there is a need to survey these facilities. They would surely push the nation's infrastructure needs above the $1 trillion mark, but how high above is uncertain. Other estimates of needs ranging as high as $3 trillion can't be taken lightly. It is also obvious that, while the financing of public works projects may vary, the needs are continuous.

Infrastructure Spending Trends.

Capital spending by state and local governments on all aspects of the nation's infrastructure has fallen each year for 15 years. At the same time, the nation's infrastructure has reached a critical point in its decay, as most recently reported by the Urban Institute. During that time, points out the Institute and the Council of State Planning Agencies, state and local governments have become increasingly dependent on the federal government's participation, which has gone from 10 percent in 1957 to 40 percent in 1981. Pat Choate and Susan Walter co-authored "America in Ruins" for the Council. The crunch has come now that sharp reductions are planned in federal participation in many areas, including highways and wastewater treatment. Federal plans, for instance, call for reducing the federal share of wastewater treatment plant funding from some $90 billion to $24 billion through Clean Water Act amendments enacted at the end of 1981.

The key question is: How much have states and local governments allowed their own funding capability and responsibility to slide? The Bureau of Economic Analysis of the U.S. Department of Commerce reports that in 1960, states and local governments spent 27.1 percent of their budgets on infrastructure. That's down to 15.4 percent in 1980. In 1968-77, the Urban Institute reports, real spending by states and municipalities fell by 30 percent. Capital spending on infrastructure as a share of the total states' budget fell by almost half between 1960-77.

Buffalo, for example, trimmed its capital budget by one-third in 1976. New York City cut more than 50 percent, and Pittsburgh 20 percent, says the American Public Works Association, based upon research conducted for the U.S. Commerce Department.

The Urban Institute notes that "Cities historically have depended upon general obligation bonds and state and federal aid, in addition to local taxes, for financing of basic capital items. None of these financing sources has proved a rock of stability." High interest rates, fueled by the U.S. Treasury's competition for funds to finance the national debt, have dampened bond issues. The general fund has been the workhorse, at the local level, for capital investment, but too many programs are competing for too few funds.

Currently, according to the Joint Economic Committee of Congress, 79 percent of all cities can expect operating fund deficits this year if per capita expenditures stay the same. Nearly three-fourths — 72.3 percent — of all public works agencies project that under present fiscal trends, there will be inadequate service within five years.

In "America in Ruins," Choate and Walter point out that the percentage of the gross national product devoted to our infrastructure needs has dropped from 3.6 percent in 1965 to 1.7 percent in 1980.

The National Governors Association reports that state governments, for the third year in a row, expect to spend more than they collect in 1982. Even though 22 states increased taxes this year, most states have surplus funds to cover only four working days, according to the governors' group.

Meanwhile, the backlog of capital investment needs continues to mount. *Business Week* magazine estimates that $66 billion is needed for basic infrastructure **maintenance** alone in the next 15 years.

The Federal Role. Cuts in federal revenue-sharing are often cited by governors and local officials as a blow to state and local programs. However, revenue sharing has never been widely used to repair, rebuild and construct infrastructure projects. The U.S. Commerce and Treasury Departments, for example, report that in 1976-77, only 1.8 percent of all shared revenue was used for publicly owned utility systems, including water, electric light and power, gas supply and transit systems. Few shared revenue dollars have been used to meet our nation's water and transportation problems under the Community Development Block

Grants, according to the Department of Housing and Urban Development.

Now the trend is for less federal involvement in all aspects of capital spending. For highways, this may meen cutting back the federal role to the Interstate [with more emphasis on repair] and primary systems, as has been proposed by President Reagan. The wastewater treatment program under the Environmental Protection Agency [EPA] has been halved between 1981 and 1982 [$5 billion to $2.4 billion]. On water projects, Congress has been unwilling to authorize projects that don't have national significance.

Yet, as the American Public Works Association points out in "Revenue Shortfall," infrastructure is a national **system**, and can't work if even one of the local links is allowed to deteriorate.

Federal assistance traditionally has been geared toward new construction rather than maintenance — witness the EPA construction grants program, which can't solve the problems of overload on existing systems.

Federal programs have to be flexible enough to allow for local needs, and should not be based on nationwide, legislatively mandated standards.

Revenue Options. In the work of the Urban Institute, the Council of State Planning Agencies, the American Public Works Association, and others, three important needs emerge: 1] setting proper priorities for infrastructure; 2] determining what constitutes acceptable service levels; and 3] working out a long-term method of meeting those needs.

There is a trend toward independent authorities, especially for wastewater treatment, increased and new user fees, state mechanisms to provide localities access to bond markets, productivity improvement and information exchange among cities on how to solve revenue shortfalls. The idea of a "capital budget," proposed initially 30 years ago, is again being studied by Congressional committees. Perhaps capital investment can no longer be based solely on uniform standards of service, set by Congress, and must be linked to economic demand. But Congress still can be the funding pacesetter. Public works agencies also need to make lawmakers aware of the consequences of deferring maintenance. New York City alone has paid $61 million over the past seven years to plaintiffs injured by potholes and bad sidewalks.

There is yet another method of preventing deterioration. Capital investment dollars can go farther with fewer delays caused by bureaucratic red tape. About half of each year's appropriated funds in federal-aid programs aren't disbursed until three years later.

Transportation.

Americans are a mobile people, but the continuing deterioration of our roads, bridges, railroads and waterways threatens to curtail that mobility. The effects, however, will not only be upon our personal mobility, but also upon our pocketbooks. Delaying necessary repairs invites higher prices in our goods and services and a greater regionalization, bound not by our ability to produce goods but our inability to get resources to factories and farms, and then to get products to markets.

Highways. Many groups, both public and private, have surveyed the nation's nearly four-million-mile system of highways and each has made a similar determination — America's highways are wearing out faster than they are being repaired or replaced.

The most extensive review of our highway needs compared current conditions to design standards and examined the wide gap which exists and the resultant deteriorating service levels. The blue-ribbon National Transportation Policy Study Commission reported in 1980 that national highway capital needs through the year 2000 total $900 billion in 1975 dollars. Revenues of only $753 billion would, over the same time period, be generated by all levels of government under existing policies. If spending is, in fact, constrained to the commission's projected level of highway revenues from all sources under status quo policies, little if any funds for new construction or resurfacing would be available in the late 1990s. Almost all available funds would be required for routine operations, maintenance, debt service and administration.

It is the Sixth Biennial Report by the U.S. Department of Transportation on "The Status of the Nation's Highways: Conditions and Performance" which paints a more realistic picture of possible action. The Transportation Department report places the 1980-95 capital investment necessary to remove all highway deficiencies at $362.8 billion in 1980 dollars.

The report's other major findings include the following:

- Since 1970 highway investments by all levels of government have increased. But they have been eclipsed by inflation, resulting in decreased real buying power.
- The combined effects of declining real investment levels and travel increases are reflected in deteriorating highway system performance since 1975.
- Overall pavement age is increasing, unmet resurfacing and rehabilitation needs are mounting, and congestion is growing, especially in urban areas.
- There are severe challenges to completing our national Interstate program and to restructuring and restoring the system in the face of deterioration.
- Based on projections through 1995, highway revenues and investments must increase, or the condition and performance levels of the nation's highways will continue to deteriorate.

Using these DOT figures for total highway and bridge needs of $362.8 billion and bridge needs alone at $47.6 billion, the total for highways equals $315.2 billion.

Other groups have viewed highway needs in different time frames and varying levels of improvements. One such report was done by the nation's state highway officials through the American Association of State Highway and Transportation Official. They have offered "A Program for America's Highways in the 80s." The group reports that 10-year (1982-1991) needs for major federal-aid highway categories total $250 billion. It bases its cost projections through the decade on 1980 dollars and assumes an annual 10 percent inflation rate.

In assessing the national ability to meet those needs, the report cites the obvious revenue shortfall under existing federal highway revenue patterns. Total Highway Trust Fund authorization levels necessary to meet those total needs are $207 billion, broken down (in billions) as follows:

1982	$13.0	1987	$20.9
1983	14.3	1988	23.1
1984	15.8	1989	25.4
1985	17.3	1990	27.9
1986	19.0	1991	30.7

Another group, the American Transportation Advisory Council, agrees with the state officials' position that there will be a severe revenue shortfall under existing highway programs. In computing 10-year projected needs for highways [1981-1990], the Council found that in 1980 dollars some $262 billion would be required. Adding the 10 percent inflation factor brings it to $404 billion.

Bridges. The Third Annual Report to Congress by the Federal Highway Administration on the Highway Bridge Replacement and Rehabilitation Program offered the following assessment of our nation's bridges:

- Number of bridges inventoried — 557,516
- Number of bridges structurally deficient — 126,665
- Number of bridges functionally obsolete — 121,872
- Total number of bridges deficient and obsolete — 248,537 (or 45 percent of total)
- Number of bridges funded to date for replacement or rehabilitation (1972 to 1982) — 8,659

The 8,659 bridges funded over the 10 year period averaged 866 bridges annually. At that rate, we are faced with 287 years of work to repair existing bridge deficiencies. The total current estimate to replace or rehabilitate eligible deficient bridges is $47.6 billion. It's of even greater concern that a bridge's average design life span is 50 years and, of the 557,516 bridges, 205,828 were built before 1940.

Airports. Aviation has a vital transportation role in America's prosperity and economic growth.

Historically, commercial aviation has remained in the private sector, with control of the airways in the public domain. To guarantee an adequate airport and airways system, both the public and private sector must agree on the goals and policies to insure that the nation's airport and airways system remain an effective element of the nation's transportation infrastructure.

In planning for future aviation growth, it is imperative that three specific areas be addressed — airport and airway capacity; airport development; and funding.

Federal Aviation Administration [FAA] forecasts indicate that, despite the recent slump in the aviation industry, commercial aviation is expected to grow at an annual rate of 4.6 percent through fiscal year 1993 and that the total number of air passengers will increase from the current low of 277.8 million per year in fiscal year 1981 to 492.2 million per year by fiscal year 1993. In addition, commuter and general aviation operations are expected to nearly double during the same period. Therefore, airport and airways plans need to seek a balanced development.

Currently, the FAA is embarking upon an extensive multi-year upgrading and modernization of the Air Traffic Control System to ensure an Airspace Plan capable of handling the projected growth. While the airspace plan is the central element in a comprehensive airways plan, so is the airport development and facilities component. Both elements must simultaneously be considered and appropriately funded if aviation capacity in the 1980s and 1990s is to be adequately handled.

There are 15,476 airports in the United States and according to the FAA there are 3,650 airports in the National Airport System Plan for which approximately $13.5 billion in airport development requirements have been identified for the next 10-year period.

The administrator of the Federal Aviation Administration has stated during Congressional testimony that:

> "Of all the things that will limit the growth of aviation, it will be concrete or asphalt — the lack of runway capability. . . It's certain, airside congestion is going to get worse, since concrete will continue to be the primary limitation."

The FAA predicts that by 1990, 41 of the 71 major airports will have a critical congestion problem resulting in an average peak hour delay of 30 minutes per operation. Implementing an airway system plan alone will not adequately address the congestion dilemma. As the problem of airport congestion grows, it will be essential to have a balance between airport and airways needs. Developments in airport design that are essential to meet the need for runway, airport terminals and facilities cannot be provided without adequate funding. The Airport and Airways Improvement Act of 1982 provides, over a five-year period, a total of only $4.8 billion in Airport Development Aid, contrasted with the $13.5 billion required over a 10-year period.

Mass Transit. It is difficult to generalize about the condition of mass transit because the age of existing systems varies widely. Maintenance on existing systems, however is the first place that spending deferrals are made during a funding shortfall.

Mass transit has become an important link in the country's transportation network, especially as an aid to reaching energy independence and relieving highway congestion. Deterioration of existing systems and unfinished systems could seriously undermine the role of mass transit.

The following capital improvement needs for mass transit over the next 10 years are projected by the American Public Transit Association:

Modernization of Existing Fixed Rail Systems	$13.5 billion
Planned Rail Extension	$4.3 billion
Completion of New Systems	$8.4 billion
New Starts	$7.9 billion
Bus Facility Improvements	$2.5 billion
Total	$36.6 billion

Funding for mass transit is provided largely by the federal government through discretionary and formula grants.

Railroads. Due to the industry's poor financial condition, many railroads have deferred maintenance and delayed capital expenditures for roadway and equipment. For example, ties have not been regularly replaced since 1953. The large number of ties installed in the 1930s and 1940s are wearing out and 50 percent of all ties should be replaced by 1988 to continue current levels of track use and operating speeds. As a consequence of this reduced maintenance, a portion of the track mileage is classified for reduced operating speeds, resulting in impaired efficiency of rail operations. More maintenance deferral has occurred in railroad yards and facilities. A recent study indicates that about 15 percent of these facilities will have to be upgraded through expansion, reconfiguration or total reconstruction.

Railroads are an integral part of the transportation link for moving raw materials, agricultural products and manufactured products. Railroads also are essential to national defense and are taking on a new importance as a key link in moving coal for export and domestic use. Thousands of individual shippers and receivers rely on railroads for relatively low cost transportation. Without substantial improvement in the system, though, railroads will continue to lose traffic because of increased hauling rates and inefficient rail operations. In turn, that will overburden other, inadequate systems.

The American Association of Railroads estimates the cost of making these improvements over a 10-year period is almost $90 billion. In turn, that will overburden other, inadequate systems.

Railroads are financed primarily as private companies. U.S. policy is to maintain a privately owned railroad system and limit federal capital assistance for railroads in financial difficulty. The federal government, while tending to resist direct cash subsidies, has aided railroads through loans and loan guarantees. The federal government has made a commitment to upgrade rail passenger operations and in 1971 Amtrak, a quasi-public, government-sponsored corporation, was formed. Its capital need through the year 2000 is projected at $4 billion for 700 miles of track.

Locks. In an advance draft of the National Waterways Study by the U.S. Army Corps of Engineers, inefficient locks are cited as the most significant limitation to the inland waterways' ability to accommodate traffic.

The study has concluded that 56 locks are more than 50 years old and have obsolete technology. As many as 54 of these 56, which require major rehabilitation or replacement by

2003, may not be repaired if the existing planning-construction process is used. The average age of the 184 principal locks on the inland waterway system is 40 years.

The study also identifies 44 locks (36 U.S. and eight Canadian) which will be congested. About 30 of these 44 locks also are over 50 years old. Further, 29 of these 44 locks will actually restrict traffic. The study projects that under maximum traffic forecast conditions and existing planning-construction, as little as 10 percent, but no more than half, of the 44 locks which need work and are congested, can have work done on them. This reflects the 24.4 year average time it takes to complete a lock project, from study authorization to construction completion.

The study further projects that over 100 million tons of shipping will not be handled by the year 2003 due to lock constraints. Agricultural products and coal will be most affected. Defense needs in an emergency will also tax lock capacity, and the study estimates that 70 million tons of shipping cannot be handled now due to lock constraints, with metals and ores most affected.

The estimated cost of improving locks between 1982-2003 is $9.7 billion (1977 dollars).

Locks are funded through the Congressional authorization-appropriation process.

Waterways. Since 1824, the Corps of Engineers has been responsible for assuring the operation of the national system of waterways at federal expense. The Corps operates and maintains about 219 lock and dam facilities and other control structures on some 25,000 miles of inland and intercoastal waterways, and maintains over 100 commercial harbors and 416 small boat harbors.

Since World War II, resources have been directed to extending the waterway system rather than intensively developing the existing system. Consequently, needed maintenance, including rehabilitation, often has been postponed. Priorities are shifting to upgrading the existing waterways.

The most serious constraint to handling navigation traffic efficiently is that key facilities in the inland waterway system are getting old and may be technologically outdated. For example, even though, as we have reported, the average age of the system's 184 principal locks is 40 years, some are approaching 80. The National Waterways Study draft predicted that the annual cost to rehabilitate our existing facilities would increase fourfold by the year 2000.

Seaports in many areas are inadequate and need upgrading. No Eastern or Gulf Coast harbor is deep enough to accommodate supercolliers that carry more than 125,000 tons of coal, twice the load of standard ships. Many ports, including Hampton Roads, Baltimore, New Orleans and Mobile, need to be dredged to the 55-foot depth required by supercolliers.

In an energy-short world where U.S. coal is in demand, ships often stand in line for several weeks, at great cost, waiting to be loaded. Hampton Roads, Virginia, is the nation's busiest coal port and also the most notorious for being backed-up. On an average day, 150 ships are anchored offshore.

Pittsburgh, a city surrounded by rivers, needs $2.5 billion to aid its crumbling locks and dams.

Next to construction, operations and maintenance of existing facilities are the largest cost items in the Corps of Engineers' navigation budget. This activity includes dredging, constructing bulkheads, repairing channel and canal stabilization works and harbor jetties, and replacing parts for day-to-day functioning. Besides increased operation and maintenance costs due to the age of the facilities, the costs will also continually be driven up by inflation and the added costs of complying with environmental regulations, particularly those associated with disposing of dredged material in an environmentally safe manner.

Traffic forecasts, developed for the National Waterways Study to predict water transportation needs, indicate substantial growth in water-borne transport through the year 2000.

Coal and grain, both domestic and for export, will be growth leaders. Strategic materials, such as iron ore, will grow more modestly, but dependence on water transportation will continue.

The study also contains specific recommendations for waterway improvements which, if implemented, would cost about $32 billion (1981 dollars).

The traditional Congressional authorization-appropriation funding method is used for waterway projects. However, beginning in fiscal year 1981, a fuel tax was imposed on commercial cargo vessels operating on 26 specific inland and intracoastal waterways — about 40 percent of the navigable miles of all such waterways. Beginning at four cents a gallon, the tax will increase to 10 cents a gallon by fiscal year 1986. Revenues collected will be made available — after authorization and appropriation — for constructing and rehabilitating these waterways. The intent, however, is not to recover the full cost of operating, maintaining, and developing the inland waterways through fuel taxes.

As costs continue to escalate, a movement to recover more of the costs from waterway users can be anticipated. The administration, in March 1981, proposed assessing ships and barges for a share of the cost of improving ports, waterways, and navigation locks. Also, several bills introduced in the 97th Congress have provisions for up-front financing or repayment.

According to a recent study by the U.S. General Accounting Office [GAO], the most urgent navigation issue before Congress is the need to deepen our ports. The GAO cites the National Waterways Study draft which recommends that, to improve the nation's waterway system, the ports of Hampton Roads, Baltimore and Norfolk should be developed to accommodate deep draft ships to boost this nation's competitiveness, particularly in the export of coal and grains. According to the Corps of Engineers, over the next 20 years, 10 to 20 ports need to be deepened to 50-55 feet.

Without deep draft ports, America can't compete with other coal exporting countries that will have the capacity to handle European and Japanese deep-draft colliers.

The Corps of Engineers estimates that the 10 to 12 ports that it plans to deepen will cost between $200 million and $500 million each. The cost of improving the three ports noted in the National Waterways Study is estimated at $1.7 billion. Assuming an average cost per project of $350 million, the 10 ports most in need would require $3.5 billion.

Presently, port dredging is funded through a permanent authorization which permits appropriations for *maintenance* dredging. Improvements must be funded through the congressional authorization-appropriation process.

Sewage Treatment.

Condition. In cities as diverse as New York and Albuquerque, the threat of collapsed sewer lines is growing. The Council of State Planning Agencies warns that one-half of the nation's communities have wastewater treatment systems operating at full capacity and could not support further economic expansion. Of 6,870 communities surveyed, the Commerce Department found 3,133, or 46 percent, had sewage treatment systems operating at 80 percent of capacity or more. And that prevents non-residential growth.

Sewer system shortcomings involve more than the physical deterioration brought on by age and neglect. A single system of common sewers that combines sanitary sewage and storm water concerns most older cities. Stormwater in sewer systems is costly and difficult to treat or eliminate. In many systems with combined sanitary and storm sewers, overflows caused by stormwater are a serious pollution problem even after advanced treatment facilities have been built to handle such flaws. Boston Harbor, for example, is seriously polluted at times by sewer overflows, creating significant health hazards. A recent study entitled, "Water Quality Goals, Objectives and Alternatives in the Boston Metropolitan Area: A Case Study," revealed that combined sewer overflows and stormwater runoffs from city streets produce nearly all of the harbor's pollution problems. According to the Environmental Protection Agency's [EPA] 1980 Needs Survey, over 80 cities have combined sewer overflow needs greater than $50 million.

Significant system "infiltration and inflow" is another major problem facing many cities. Infiltration is the seepage of groundwater into the system through faulty joints and other pipe openings. Inflow is stormwater which enters directly through manholes, the illegal connection of down spouts, and other ways. To eliminate infiltration, mains with poor joints or deteriorated walls must be patched, sliplined (fitted with a new inner wall) or replaced. According to the 1980 EPA survey, $2.5 billion is needed to correct these infiltration and inflow problems.

Effect on Commerce and Development. Sewer systems inadequate to support new or expanded business investment are an urgent national problem. In older communities, worn out sewer lines and wastewater treatment facilities are inhibiting new plant construction and expansion. In growing areas, the lack of such vital facilities delays private investment, placing a heavy financial burden on the community.

With increasing federal cutbacks, many localities which aren't able to finance sewer lines independently will suffer an even greater slowdown in housing construction.

Costs. The EPA's 1980 Needs Survey shows remaining eligible needs of $119 billion to meet the program's goals, compared to $106 billion in the 1978 needs survey. America could get more for its public works dollars if it would consistently maintain what it has already built, according to a number of public and private sector reports. Yet EPA estimates a backlog of construction projects exceeding $8 billion, an amount equal to two full years of appropriations at past levels. Of the $119 billion needed to meet the program's goals to the year 2000, $91 billion, or 76 percent, is identified as backlog needs. Combined sewer systems alone need $37 billion to correct pollution caused by overflows.

To upgrade all facilities to secondary treatment levels, the EPA estimates $28.8 billion is needed. Due to the increased emphasis on such advanced treatment levels, total needs for treatment levels beyond secondary treatment have declined since 1978.

Rural areas and large cities have the greatest treatment needs. For example, rural areas below 3,500 in population — representing about 8 percent of the nation's population — have 16 percent of the total need. Moreover, cities above 50,000 population — representing 70 percent of the population — have 79 percent of the national need. Nineteen major U.S. metropolitan areas reported needs greater than $1 billion. New York City has the greatest needs with over $11 billion required for sewage treatment.

Spending Levels. Wastewater treatment has become the largest environmental public works program in the country's history, second only to the Interstate highway program in overall public works. The federal construction grants program, by law, can be used for both new construction and rehabilitation projects involving sewage treatment plants, interceptor sewage, outfall sewers, sewage collection systems, and equipment for operating sewage systems. But, in practice, there has been little spent on repair and rehabilitation. Combined stormwater and sanitary sewer-repair responsibilities usually have been left to local jurisdictions and have a low priority for construction grants funds.

The Clean Water Act of 1977 authorized an additional $25.5 billion for the construction grants program through 1982. The legislation gave states the exclusive authority to rank projects based on the EPA's Needs Survey. The law also stipulated that no more than 25 percent of a state's construction grants funds could be used to construct or rehabilitate sewer pipeline projects that were on a state's priority list and otherwise eligible for funding. Along with the restriction on these "pipeline" funds, state priorities are limited to meeting unfilled treatment needs before other eligible treatment works may be funded, according to the Urban Institute.

The construction grants program was not conceived as an ongoing capital aid program, but rather as a one-time effort to assist communities in the construction of treatment works and related sewer facilities. To receive federal construction grants, local governments had to adopt user charges to ensure future self-sufficiency. Responsibility for maintenance and repair was lodged with the public owner of the sewer system.

According to the Urban Institute, in 1979 the EPA was directed to use its grants program to help strengthen central cities — specifically by favoring repair projects in older cities and discouraging the use of construction grants to develop interceptor systems for new exurban areas that would drain population or economic activities from the urban core. Although restrictions on grants for new sewer line installations have been effective, almost no funding was ever generated for central city repair and rehabilitation of sewer collection systems.

Through April 1982, the EPA had spent $29.9 billion on all wastewater treatment functions since 1956. According to its Needs Survey, another $454 billion should be spent through the year 2000. However, the EPA concludes, "Greater progress could be achieved toward treatment goals with a more focused funding strategy. Current treatment plant needs are estimated at $34.5 billion. If these needs are to be met, funding would have to be focused on these needs. Without a focus, treatment plant needs are unlikely to be met before the year 2000."

Water.

Conditions. Just as the energy shortage was the major crisis of the '70s, a water shortage may be the major crisis of the '80s and beyond. Water is needed for a variety of purposes: developing domestic energy supplies, supporting a healthy population, and maintaining industrial, manufacturing and agricultural bases. The water crisis, should it occur, would not be because this country lacks water: it would be the result of poor management of this resource.

Why is there suddenly an increased demand for water? Our population is shifting from the water abundant Northeast to the relatively arid West and Southwest. And demand on our agricultural system to increase exports is increasing. According to the U.S. General Accounting Office [GAO], irrigation accounts for more than 80 percent of the nation's water use.

To avoid future water shortages, America must increase supplies while reducing consumption. Methods of increasing water supplies include: building more water projects, such as reservoirs and pipelines to create additional holding and delivery capacity, and developing technologies to make formerly unusable water safe. One of the major problems with new projects is the tremendous time devoted to developmental stages. The GAO reports that up to 31 years have been spent moving some water projects from conception to reality. Shortening these development periods is a key to holding down overall project costs.

The nation's energy crisis presents even more implications for America's water needs. Not only will water be needed to generate hydro-electric power, but vast quantities will be necessary for other energy-related efforts including: steam electric power plants, shale oil recovery, coal gasification and liquification, and coal slurry pipelines. Many reports predict that these quests for energy will nearly exhaust all unused water supplies in the mineral-rich, water-short West. If America is to rely on alternative forms of energy, water must be made available.

Because of its importance, the supply and delivery of water can become a hot political issue. Many groups are at odds over water rights. For example, there are over 50 lawsuits in the courts involving Indian water rights. Environmentalists, competing industrial users and states sharing a common water supply are trying to resolve their problems.

An aging network of dams and reservoirs poses another threat to the nation's future water supply. A Corps of Engineers report on the safety of non-federal dams indicates that there are over 65,500 non-federal dams in the country of which 8,794 have been classified as high hazard because of their potential to damage human life and property. Of these high-hazard dams, more than a third are rated unsafe. Due to budget constraints, the study didn't even investigate another 56,000 dams rated less than "high hazard."

Federal dams are inspected and maintained by the agency that built them. Although most are maintained on a regular basis, 48 U.S. Bureau of Reclamation dams need structural improvements to make them safe.

Effect on commerce and development. Water is not only essential as a life support system, it is vital to any type of development. Water is necessary for drinking, washing, cooking and recreation. A workforce must have water as a life-support system. Development must have water for business. New communities built around new business and industrial centers will need new water.

Old age is also catching up with many American Cities. In St. Louis, about 15 percent of the water supply leaks out of the pipes. Boston, the biggest loser, estimates it loses 15 to 25 percent of its water because of leaks. Philadelphia loses 15 percent, Chicago, 17 percent, Tulsa, 14 percent and Kansas City, 11 percent. The leaks not only waste water, they also cause street cave-ins and other above-ground hazards.

While water problems in the West are serious, the East also faces water problems. Many eastern reservoirs, dams and water tunnels are over 50 years old and need major renovation or replacement. With today's emphasis on reducing public expenditures, renovations and replacements are needed to prolong the life of these facilities. Since 75 percent of the nation's population lives in metropolitan areas, their water supply systems must not continue to deteriorate. The failure of a major water system could create a disaster for millions of our urban population.

Dams are constructed for specific reasons such as irrigation, hydroelectric power, flood control, water supply, recreation, or navigation. Whatever their purpose, a dam failure can be disastrous to a community, particularly with the loss of lives and property. In 1972, dam breaks in Buffalo Creek, West Virginia, and Rapid City, South Dakota, claimed 362 lives. The Teton River Dam burst in 1976, killing 11 people and causing $1 million in damage. A year later, a dam breached in Toccoa, Georgia, killing 39 people. This incident prompted the federal government's dam inspection program by the Corps of Engineers. In 1982, 19 dams were washed out or partially breached in Connecticut, and a dam burst in Colorado, flooding the town of Estes Park.

Costs. The "America in Ruins" study notes that urban areas with populations of over 50,000 will require between $75 and $110 billion to maintain their urban water systems over the next 20 years. About one-fifth of these communities would face revenue shortfalls, even if water rates are doubled.

No available figures project what it will cost to supply water to rural areas. But as the population continues its shift to the West and Southwest, huge sums will be needed to assure a water supply.

No cost estimate exists to upgrade all non-federal dams to safe condition. But the estimated cost of upgrading only the 48 Bureau of Reclamation dams is $650 million, an average of $13.54 million. Projected over the 8,794 high-hazard dams, the cost of repair exceeds $119 billion.

Spending Levels. Water projects have been financed and subsidized largely by the federal government. In fiscal year 1982, appropriations for water project construction and rehabilitation by the Corps of Engineers and the Bureau of Reclamation totaled about $1.9 billion. These agencies are requesting about the same funding for fiscal 1983. And they have a backlog of over $50 billion in congressionally authorized projects in various stages of delay in the contruction pipeline. Excluding navigation, the Corps of Engineers and the Bureau of Reclamation are spending over $500 million annually to operate and maintain water resources projects. This figure is expected to increase more than 300 percent in the next decade, according to the GAO.

To return more decision-making authority to the states, the federal participation in water projects may diminish. The source of financing, how it's repaid, and over what period are major issues that Congress faces in deliberating water policy reform. Existing federal water project repayment laws and policies have been questioned in the press and in Congress for heavily subsidizing agricultural water users. Congressional committees, presidential task forces, and advisory committees have concluded that reforms are needed to match the growing concern for fiscal austerity. The day of unquestioned low-cost or free water and generous repayment terms may be over.

Public Buildings.

"Public works" commonly mean the highways and bridges; sewers and water supply systems; locks, dams, ports and reservoirs which deliver the services we require. But the list continues.

Just as those highways and sewers hold our communities together, so do our schools, fire houses, police stations, libraries, post offices and all the government buildings which house the services and businesses required to meet the needs of a growing population. In detailing the nation's infrastructure needs, the public buildings must be counted.

The building needs of our nation are confined neither to the old nor the new. In Dallas, one of the nation's newest population centers, the city's government estimates that $30 million should be spent over the next two years to build and improve its libraries, recreation facilities, police stations, fire houses and jails. On the last, the entire state of Texas has been caught short. Some prisoners are reported sleeping "under the stars" due to overcrowded conditions.

New York City, one of the nation's oldest metropolitan centers, has started cataloging its construction needs. The city's capital budget plan — self-described as its "Brick and Mortar" needs — places required expenditures at $1.2 billion over just the next six years.

New York planners estimate its needs are:

$304 million	for hospitals and health facilities
238 million	for parks and libraries
143 million	for jails
228 million	for fire houses
133 million	for police stations
131 million	for court houses

TOTAL — $1.2 billion

The whole of government funded building construction *could* be bullish in the '80s. The need for such activity, however, may not be matched by the willingness of government at all levels to finance it. While the federal government's total construction program isn't handled by any single agency, the General Services Administration [GSA] handles the lion's share through its Public Buildings Service. The GSA oversees 7,200 buildings nationwide, providing office space for 860,000 employees.

In its 1982-1988 Management Plan, the GSA continues its move toward owned, rather than leased, space. Currently, the GSA owns 53 percent of the space it provides and leases the remaining 47 percent. Plans call for increasing the owned space to 78 percent by 1988. The agency's own studies, supported by congressional discussion, indicate that in roughly 90 percent of the 5,387 cases where space was leased by the government in 1980, constructing similar space would have been less expensive. That's why the GSA, in estimating its short-term construction needs, identified some 73 projects which should be underway by 1988.

The move toward increasing government-owned office space is not the only factor behind the GSA's $3.6 billion plans through 1988. Rehabilitation of existing structures also is necessary.

Of the 2,200 buildings owned by the GSA, 60 percent are more than 30 years old. In its latest Management Plan, the agency has identified 212 projects required at those locations with an estimated cost of $1.1 billion. Roof repairs, conservation retrofitting, safety systems, remodeling and installation of more efficient heating and cooling systems lead the list of work required in existing structures.

The U.S. Postal Service has projected the need for 15 projects in 1982 totaling $414 million.

Hospitals. Age also is the foe of hospitals and health facilities run by the Veterans Administration [VA]. That agency's Medical Facility Construction Plan covering the next five years identifies $5.35 billion worth of major construction projects which should be undertaken. The report, which confines itself to projects costing $2 million or more, is the fourth such five-year plan issued by the agency, and is a "construction needs assessment" drafted without consideration for revenue availability.

In all, the VA has identified 252 major construction projects which meet one or more of the following three criteria:

1. To build and/or modernize existing facilities to accommodate program growth or realignment.
2. To meet the functional and space requirements of modern medicine.
3. To correct cited deficiencies in the areas of patient environment and safety, and to meet the standards of accreditation.

These projects range from new construction to renovation, but in most cases, age plays a role. Take, for example, the "Top Ten" major construction and rehabilitation projects listed in the VA report. Except for the facility in Gainesville, Fla. which opened in 1967 and is due for expansion, the remaining nine projects average over 50 years old. The Mountain Home facility in Tennessee is the oldest, opening its doors in 1903. These 10 hospitals serve as the primary healthcare facility for nearly 328,000 veterans.

The remaining 242 projects run the gamut of hospital improvement and upgrade, including renovation, alterations and modernization of facilities.

Jails and prisons. The system of justice in the United States has long been debated, but usually the argument concerns what happens *before* a criminal is convicted. Today's debate has centered on what happens *after* he is imprisoned. Crowding remains a principal factor prompting judicial intervention in corrections policy. As of April 1, 1981, prisons in 36 states and territories were under court orders to end overcrowding. Judges in several states, including Florida and Tennessee, are allowing for early prisoner release due to overcrowded conditions.

Unfortunately, this response points to the critical need for more prison and jail space. The prison population has rapidly increased since 1975, and recent data support steady growth through the 1980s. Consider the following facts from the American Correctional Association [ACA]:

- The number of prisoners held by long-term correctional institutions has reached a record high for the fifth consecutive year, the national number is now well in excess of 321,000 persons.
- The number of state prisoners housed in jails — there are about 7,000 such structures — continues to climb because of overcrowded state systems.
- Serious crime, measured by the FBI's crime index, rose 10 percent in volume during 1980, as compared to 1979, the sharpest increase since 1975.
- Only three times since the 1920s has the prison population decreased, during World War II, the Korean conflict and the Vietnam War.

All this points to the critical need for all levels of government to increase their funding to modernize old prisons and jails and construct new space. As reported in *Business Week*, over half of the nation's 3,500 jails are more than 30 years old. At least 1,300 of them, and perhaps as many as 3,000, need to be rebuilt. The ACA recommends that the federal government appropriate at least $1 billion per year to allow states and local criminal justice facilities to cope with judicial decisions which are classifying many facilities as unconstitutional and also to solve the overcrowding problem. The ACA also feels that there should be a national Correctional Construction and Program Development Act to provide a national basis for building more space.

Multifamily Housing. Rental housing is an important source of shelter for many Americans. About 26 million families — 35 percent of all families — depend on rental housing for shelter, according to the U.S. General Accounting Office. But, the National Association of Home Builders estimates that by the year 2000, renters will occupy about 30.5 million housing units, or only 26 percent of all occupied units.

The reasons for this are the losses of existing units through abandonments and conversions to condominiums, rapidly escalating operating costs and the increasing age of the existing rental stock. (According to the 1977 Annual Housing Survey, about 41 percent of all renter-occupied housing units are in structures built in 1939 or earlier.) All this points to the increased need for more rental buildings to accommodate those who either cannot buy housing or choose not to.

Historically, says the GAO, the private sector and the federal government have shared the burden of providing multifamily rental housing, with the private sector dominating the market. However, the factors adversely affecting rental housing have resulted in increasing reliance on government to provide this housing. In 1979, about 75 percent of multifamily rental starts were federally subsidized and/or insured. Unfortunately, according to the GAO, the government doesn't have the resources to meet current and future needs. With the private sector's reluctance to operate rental units, given current restraints, there will be a great need for multifamily units.

Energy

Pipelines. A major objective of America's national energy policy is the increased utilization of the nation's vast resources of coal to relieve dependence on imported oil and make natural gas available for premium fuel use. Although railroads have been and continue to be the prime haulers of coal, constructing long distance pipelines to transport this mineral are becoming more important. Currently, there are two major problems which confront pipeline construction.

One problem revolves around eminent domain — allowing pipelines right-of-way across privately owned property. The second problem is that a coal "slurry" (finely grinding coal and mixing it with a liquid for pumping) pipeline operation requires great amounts of water to move the pulverized coal. Indeed, this highlights the increased need of available water supplies in this country. (see section on **Water**).

It is vitally necessary that coal slurry pipelines be constructed so that the increased demands can be met efficiently and economically. According to *Pipeline and Gas Journal* (January, 1982), 10 coal slurry pipeline projects are proposed for the United States, totalling 10,396 miles and costing an estimated $12.6 billion. Construction of these pipelines depends on Congressional decisions about eminent domain legislation.

Pipelines carry products other than pulverized coal. They also carry natural gas, crude oil, carbon dioxide and petroleum by-products. In 1982, 11,200 miles of pipeline are scheduled for completion. This indicates that oil and energy producers and pipeline transporters plan to continue adding significant new facilities and to extend the national energy distribution system to previously untouched or lightly served areas. Much of this pipeline work is financed with private dollars.

Pipeline and Gas Journal has also estimated that pipelines will boom in this country as our alternative energy demands rise here and abroad. The magazine estimates that by 1991, total new pipeline miles will reach 28,800 — an average of 2,880 per year. Between 1991 and 2000, the magazine estimates an additional 31,700 miles of pipeline will be constructed.

Power Plants. According to the U.S. Department of Energy, the demand for electricity should continue to grow. The DOE cites three reasons for this: First, an expanding economy has raised income with which the electricity can be purchased, and has tended to raise investment in capital goods by which electricity is used. Second, large increases in non-electric energy prices have made electricity an increasingly attractive substitute for other forms of energy. Third, new technologies like air conditioning/heat pumps have broadened the range of services which electricity can provide.

The supply of electricity is threatened, according to the DOE, because financial problems are making it hard for utilities to build power plants. Existing regulatory policies have restricted utility earnings and weakened the ability of utilities to raise capital by selling stocks and bonds. Without profits or external capital, new capacity can't be built.

"Recent electric supply and demand trends point to two possible unsavory results by the end of the decade," the DOE notes in *The Nation's Electric Future: Perspectives on the Issue of Electricity Supply Sufficiency.* "First, the central regions of the nation may have less electricity than their growing economies require. Second, due to aging equipment and continued reliance on power plants that burn oil and gas, the entire nation may pay more for electricity than it needs to."

The DOE concluded that continued utility financial problems, when matched with modest electricity demand growth, may cause a long-term shortfall in electricity supply. If power plants continue to be cancelled and deferred, supply sufficiency could be risked in much of the country as early as 1990, the DOE warns. The reliability of service could be called into question, and the cost of electricity could increase substantially. While the frequent failure of regulators to allow utilities an adequate rate of return may save money for consumers in the near term, it guarantees long-term economic losses through weakened energy infrastructure, higher electricity prices and increased energy imports, says the DOE.

Infrastructure Deficiencies: Case Studies.

Cleveland. Cleveland's financial problems make it extremely difficult to assure an adequate level of capital investment in the city's infrastructure. Many of the city's facilities are in poor condition after years of neglect, jurisdictional disputes which have stalled investment and hindered maintenance efforts, and a pattern of voter reluctance to finance improvements. The city of Cleveland faces a backlog of some $700 million in basic improvements to its infrastructure system, according to estimates by the Urban Institute.

The Cleveland Water Division has four purification plants and one — the Division Avenue plant, built in 1915 — is in hazardous condition. Settling has severely stressed its structural components, causing mechanical failures, leaks and a partial roof collapse. Since this plant provides 31 percent of the total system's treatment capacity, the other three plants couldn't accommodate current or projected water demand if the Division Avenue plant were shut down.

The water distribution system also has major deficiencies, especially in Cleveland's suburban communities. Most of the distribution pipes installed before 1955 are metal, not concrete, and deposits, called tuberculations, have begun to impair the capacity of the system. Gilbert and Associates, which conducted a report entitled, "A Study of the Cleveland Water System and Relevant Issues on Suburban Service," found that tuberculation has drastically reduced the pipes' ability to transport water. With inadequate flow and impaired pipe capacity, water pressure frequently falls below the American Water Works Association's suggested minimum of 30 pounds per square inch during the peak demand periods, and many customers are without service.

By all indications, Cleveland's sewer network also has seriously deteriorated. There have been many street cave-ins and capacity can't accommodate peak flows. Two-thirds of the sewer main mileage is over 60 years old, with the oldest sections built in the 1880s. Most of the pipe is brick and the system's three treatment plants, built in the 1920s and '30s, have required extensive expansion of capacity and upgrading of treatment processes during the '70s and '80s. More amazing, over 90 percent of the combined sewers — sewers that handle both sewage and stormwater — and 60 percent of the sanitary sewers are approaching or exceeding the anticipated service life of 50 years.

The most difficult sewer system problem is inadequate capacity to handle stormwater runoff, with numerous flooding incidents and overflows of raw sewage into receiving waters during the more than 100 periods of rain Cleveland experiences each year.

Orlando. The Florida Environmental Protection Department recently prohibited Orlando from adding more homes to its overloaded sewer system. Orlando has two serious waste-treatment problems. The *Wall Street Journal* reported that its three waste-treatment plants are at capacity, including a $100-million plant that just opened last fall. A new plant would help, but the city is strapped for money. The city's second problem is that it doesn't have a place to put treated water. Previously, it had been discharging 12 million gallons of treated water a day into a local stream. The EPA, however, has ordered local officials to stop the practice by 1988. The city will have to build pipelines since it isn't located near a river, lake or other large body of water.

Oakland. Oakland has been reducing services since its 1976-77 fiscal year. With the passage of California's taxcutting Proposition 13 in 1978, it had to make even greater program and service reductions. During this time, the Office of Public Works has been struggling to maintain the basic integrity of the city's street system. In 1980, the city only resurfaced 1 percent of its street system and was unable to finance any street reconstruction projects without federal and state aid. The city is being forced to eliminate some street maintenance programs, and to reduce spending for other street repair work.

No local revenues are used for street improvement, and there is little likelihood of change. State gasoline tax revenues represent a diminishing source of aid that was previously used to finance street maintenance activities but not preventive maintenance. Two-thirds of Oakland's street mileage is ineligible for the major federal highway assistance. Under these circumstances, the backlog of unfunded street improvements soon will reach critical proportions.

Oakland's storm sewer system also is suffering a cutback in routine maintenance.

Boston. Boston has some of the oldest water and sewer pipelines in the country, according to the Urban Institute. More than 20 percent of Boston's water distribution pipeline system and over 70 percent of its sewers were built before 1900. Approximately 40 percent of the city's purchased water supply is unaccounted for, due to undermetering, pipeline leaks and breaks, and unmetered public uses. The city's combined sanitary and storm water sewers, as in other older cities, experience blockages and overflows.

Almost all of Boston's water pipes are cast iron, except a few large steel transmission mains and the stronger ductile iron pipes installed after 1968. Pipes laid before 1928 are not cement-lined and these unlined pipes are the primary source of corrosion and leakage.

The Boston Water and Sewer Commission was established under state legislation following a home rule petition by the city. Although it has made significant improvements over the city's maintenance levels, the commission expects several years of catch-up work before a systemwide preventive maintenance program is possible.

New York. Because of its past financial trouble, New York City is an extreme example of problems resulting from maintenance cutbacks. According to the Urban Institute, most of New York City's 6,000 miles of water mains are at least 75 years old. Fifty-five percent of its water distribution system consists of old cast iron pipes which fail to meet current city standards for pipe at least 10 inches in diameter. Coupled with reduced maintenance, this has caused a number of main breaks. It's estimated that about 25 percent of New York's total street length lacks adequate sewerage. In addition, an estimated 40 percent of the existing system is over 60 years old.

New York's streets and bridges suffer as much as the pipe beneath them. The Manhattan Bridge can sway several feet when a subway crosses, and cables have snapped on the Brooklyn Bridge. A report by the city comptroller noted, "the city has virtually no program for the systematic maintenance of its bridges and arterial structures." One out of every 10 bridge and tunnel structures was found to be in poor condition — deficient and needing major reconstruction or replacement. The need for reconstruction — not just resurfacing — has given New York's highway officials a 2,300-mile repair backlog. The Office of the Comptroller annually pays claims of about $9 million to persons injured because of faulty sidewalks or street surfaces. In addition, the city annually fills an estimated one million potholes, or about one for every 30 feet of roadway.

New York also needs to rebuild 25,000 acres of parks, 17 hospitals, 19 city university campuses, 950 schools, 200 libraries and hundreds of fire houses and police stations, the Council of State Planning Agencies reports.

Chicago. Chicago is one major city which is attempting to turn its rapidly deteriorating core back into the prosperous commercial and cultural center it was 20 years ago. Between 1981 and 1985, Chicago plans to spend $3.3 billion in improvements to its water and sewer lines, street and bridge construction, airport developments and public transit.

One noteworthy project is the proposed rehabilitation of Navy Pier, a 65-year-old lakefront structure adjacent to the downtown. This public and private venture will offer a wide array of activities including a retail and entertainment marketplace, children's play park, arts center, first-class hotel and marina. With all facilities in operation, it is expected to generate about $17 million annually in taxes to the city. Navy Pier redevelopment also will provide about 1,500 construction jobs in addition to at least 3,500 full-time and 1,500 part-time jobs when complete.

The new State Street Mall also is a good example of how renovating a key element of a city's infrastructure can stimulate economic growth. For years, State Street was the main retail strip in Chicago. Slowly, it began to decay. The city then decided to construct a transit-pedestrian mall. The sidewalks of the nine main State Street shopping blocks were widened and repaved, traffic lanes were reduced to two, with only buses and emergency vehicles allowed access, and the area was landscaped. Sales subsequently increased.

Dallas, Houston and the Southwest. While not perfect, Dallas' infrastructure is in better shape than most cities' physical plants. Dallas has been able to channel a substantial share of its general federal aid into the capital budget, a luxury not known to many northern and midwestern cities which have felt constrained to use federal assistance for operating deficits. In addition, Dallas has set aside a significant share of current revenues for capital spending, limiting its reliance on debt. Yet, "America in Ruins" notes that Dallas must raise almost $700 million for investment in water and sewage treatment systems in the next nine years, and more than $109 million must be generated to repair deteriorating city streets.

Like many southwestern cities, Dallas' downtown is suffering from a shortage of parking spaces — estimates place the shortage at 14,000 — and it is expected to more than double by 1985.

The morning and evening rush hours in Houston are considered the worst in the country. Like Los Angeles, Houston is growing out and not keeping pace with its growth.

Huge investments are needed in water systems throughout the Southwest. Existing water systems in much of the South and West haven't been maintained. "America in Ruins" predicts that at present rates, the area in the Texas and Oklahoma panhandles and surrounding states will have used all of its water by the year 2000.

Phoenix is facing the possibility of water shortages for the first time in years. In May 1982, city officials raised water rates 27 percent to discourage consumption in the hot months.

And in Albuquerque, New Mexico, one-third of all sewer lines have decayed to the point that trucks traveling over them frequently collapse the lines and covering streets.

Alternative Program Financing.

The deterioration of this nation's water and sewer facilities, bridges, roads, and public buildings has been well-documented. Publicity of bridge collapses, sewer systems overflowing, and bursting water mains in cities as diverse as New York and Albuquerque is awakening the public and politicians to the problems of their deteriorating infrastructure.

As many as two-thirds of America's towns and cities cannot accommodate new economic growth because their support systems are either worn out or limited. The National Council for Urban Economic Development reports that in older communities, worn out or insufficient water and sewer lines, wastewater treatment facilities and fire stations are inhibiting new plant construction or expansion. In growing areas, the lack of these facilities delays private investment, placing heavy burdens on the community.

With the growing dependency on federal assistance during the past generation, cities and states have been slow to find ways to increase their public capital.

Part of President Reagan's economic plan has been to shift controls and responsibilities to local and state governments while providing incentives to the private sector such as deregulation and the 1981 tax act.

However, it may be impossible to finance the rebuilding of America's infrastructure using traditional methods. Among alternatives suggested are user fees and private operators for some facilities, as well as providing better access to bond markets.

The realistic options are institutional and tax devices that reallocate resources to capital infrastructure from other priorities, but none is without cost.

Historically, revenues have been increased with tax boosts. To ensure adequate state funds to match federal revenues available, and to finance a 100 percent state program, many states have tied their tax increases by statute to federal monies. Recent cuts in federal expenditures, however, have placed these states in "double jeopardy." Not only are they faced with reduced federal aid, but they also have less revenue to fund their own programs.

In response, some states already have removed the ties between their tax codes and federal tax codes, to halt the losses. Two states recently raised sales taxes, while many others have hiked levies on gasoline and alcohol.

However, a study by the Joint Economic Committee of Congress on state and local growth patterns of the 1970s concludes that there are practical and relatively costless alternatives to tax increases.

The Urban Institute reviews some financing options in a policy paper entitled: "Financing Urban Infrastructure." The strategies include:

Bond Markets. The municipal bond traditionally was among the best sources for financing public works projects. States and cities across the country have been facing a borrowing crunch, however, because of their inability to pay high interest rates.

Industry sources report that: "Municipalities are not receptive to selling bonds because they face paying higher interest rates just at the time when federal cutbacks are occurring. Some states have established authorities to supervise local capital operations in conjunction with state bond banks which issue debts on behalf of localities. This idea has become especially popular in states such as South Carolina with many small communities."

The Texas Water Development Fund is one example of this type of operation. It enables localities and special districts to borrow funds for water supply and sewage treatment construction projects. The state's strong credit rating allows it to issue bonds with low interest rates and to lend the proceeds to cities or water and sewer districts. The Development Fund has been especially helpful to small cities in Texas with limited access to credit.

The Morgan Guaranty Trust Company, in a recent report, says volatile interest rates have dampened the municipal bond market.

"During the past two-and-a-half years. . . high and volatile interest rates have caused state and local governments to postpone trips to the long-term debt market. Instead, they have turned increasingly to the short-term market through the issuance of bond anticipation notes and tax-exempt commercial paper," the report says.

Contracting Out. Federal procurement from private sources or "contracting out" could reduce costs on public works projects by as much as 25 to 50 percent, says a business spokesman. Currently, many government agencies perform these activities with their own employees. Most often, this "force account" construction is undertaken without regard to comparative costs of construction by contract. The result, in many cases, is inflated costs. A 1981 Associated General Contractors of America survey indicates that contracting out could be more widely used. For example, the Tennessee Valley Authority [TVA] spent more than $1.9 billion on construction and engineering in 1980, 90 percent of which was spent on TVA's own construction force. An Oregon study, conducted by AGC's Oregon-Columbia Chapter, concluded that taxpayers received a net return of 23.2 to 24.5 percent of the contract cost when contract construction was chosen over force account costs.

Enterprise Zones. Enterprise zones could bring a new commitment to business in inner cities. Congress would permit designation of 25 poverty-stricken areas in each of the next three years. Companies in the zones would qualify for tax benefits and workers would also get tax credits. The American Legislative Exchange Council [ALEC] has supported this idea based on the belief that increased business activity would provide more jobs and more government revenue, eventually reducing the cost of welfare and unemployment benefits.

Private Participation. The shifting of services to the private sector, spurred by the 1981 federal tax bill, is underway in a number of cities. There has been significant success in new contractual arrangements between municipalities and private corporations. Scottsdale, Arizona, has even contracted out its fire department.

With not as much success, the idea of leasing public facilities also is beginning to draw attention from city and state officials. In effect, a public authority "sells" to a private firm the depreciation advantages of capital ownership. At the same time, the public authority retains the advantage of tax-exempt bond financing. Its limitations, of course, lie with high interest rates which must be paid by the private borrower.

With a few exceptions, this type of arrangement has been limited to cities selling buses or other transit facilities then leasing them back. The Oakland Museum and Oakland Auditorium in California, however, were sold to private investors by the city. The city leases the facilities and will have to repurchase the museum in 30 years. Pittsburgh officials are negotiating with the United States Steel Corporation to build a bridge which U.S. Steel would rent to the city.

Independent Authorities. Urban Institute studies show that where sewer and water systems are taken out of the general budget process and entrusted to independent authorities, the capital stock condition of these systems becomes superior, maintenance improves and capital replacement and repair plans are followed more often.

Independent authorities and enterprise operations are better able to gain access to capital markets. The fact that they possess stable revenue streams from user charges, and have authority to raise prices to cover cost increases, makes them able to issue well secured revenue bonds for their capital needs. In many cities, independent sewer and water systems enjoy significantly higher bond ratings than the general purpose city government, states an Urban Institute report.

The city of Boston shifted responsibility for water and sewer operations to an independent commission in 1977. The city's sale of these two systems wiped out an accumulated operating deficit of $25 million in the city's accounts and relieved the city of the outstanding debt service. The new Boston Water and Sewer Commission raised rates to cover full operating and maintenance costs, and recently issued its first series of revenue bonds for a 10-year capital improvement plan. In Boston's case, transferring authority relieved a fiscally troubled local government, brought better management to water and sewer operations and stabilized capital planning and financing.

State governments own a considerable amount of land and physical assets. Often a government purchases the asset because of a commercial, industrial or other function it performs. The state of Kentucky, however, recently proved that a substantial amount of money could be collected by selling unneeded land and assets. The Kentucky Department of Transportation has netted $1.5 billion since the program began in early 1980, and it has identified another $6.5 million this year. Because of the revenue, Kentucky has resurfaced more roads this year than ever.

"State and local governments," the Urban Institute warns, "must stop lobbying for more federal assistance and get about the job of setting their own priorities, reassessing their needs and collecting funds at the local level to pay for them."

Economic Benefits.

Construction creates buildings, roads, dams, or sewer lines, and all that goes with them. Construction creates jobs, material purchases, salaries, tax revenue and more, in what economists call the "rollover."

But, first there are the jobs.

Nearly one million construction workers — about one-fifth of the nation's largest industry's workforce — are unemployed. Construction, even during the current economic recession, accounts for some $230 billion of our gross national product, directly employs 3.8 million people, and indirectly an additional 16 million people in construction supply industries such as cement, glass, steel, insurance, architecture and engineering. Unlike the recent past, however, when construction accounted for 10 percent of the gross national product, today's level represents less than 8 percent of the GNP and a sharp drop in the number of people at work on construction sites.

Much has been written about the tremendous backlog of public works needs — estimates range from $1 trillion to $3 trillion — but even a much less ambitious program could put *all* those unemployed construction workers back on the job.

Jobs. Based upon data generated by the Department of Commerce's Bureau of Labor Statistics (BLS), the Department of Transportation and the Council of State Planning Agencies, each "on-site" construction job created by an expanded program of funding public works projects generates an equal number of "off-site" jobs, and "induces" nearly three times that number by corporate expenditures and the spending and respending of wages.

Those categories of work can be defined as follows:

"On-site" is labor at the construction site.

"Off-site" is labor required to manufacture, sell and transport the materials, equipment and supplies used in the construction industry.

"Induced" is labor generated by the spending and respending of wages and profits. It is also the most difficult category to quantify, yet even the most rudimentary approach reveals a significant economic effect.

A composite equation based on these data indicates that spending $1 billion on federal-aid highway construction would produce the following jobs:

$1 billion =	13,100	on-site jobs
	13,200	off-site jobs
	36,700	induced jobs
	63,000	total new jobs

The BLS has generated data for each of the three other categories of non-residential construction — municipal-utilities, heavy-industrial and commercial building. The following chart reflects the labor intensive nature of all four construction activities:

Activity	On-Site	Off-Site	Induced	Total
Highways	13,100	13,200	36,700	63,000
Municipal-Utilities	9,350	14,450	28,050	51,850
Heavy-Industrial	10,900	11,600	32,700	55,200
Commercial-Building	10,250	14,050	30,750	55,050
Averages, All Activities	10,900	13,325	32,050	56,275

According to data collected by the U.S. Department of Commerce's Bureau of Industrial Economics and The Road Information Program [TRIP], a non-profit, Washington, D.C.-based research firm, the average on-site construction worker earns approximately $21,320 annually. The off-site worker earns, on the average, 3.6 percent more, or approximately $22,100. [No data are available for the induced category as it includes various service industries with widely disparate pay scales.]

But of the 10,350 on-site and 13,450 off-site jobs created by investing $1 billion in capital construction funds, the benefits are two-fold. Newly employed workers stop collecting state and federal unemployment and other relief funds and become productive, *tax-paying* participants. The 23,800 on-site and off-site workers will pay some $56 million in federal income taxes and nearly $36 million in social security taxes. This assumes a non-working spouse and two other exemptions. Even without the ability to quantify the benefits of induced jobs to the federal treasury, the results can be assumed significant. And each new worker also pays similar double dividends to his home state. Clearly, every dollar invested in public works reaps a benefit in tax payments to both federal and state treasuries.

The facts underscore the position of the Department of Commerce on the indelible link between construction activity and economic vitality: The close relationship between a region's rate of economic expansion and its rate of growth in construction activity reflects the important role the construction industry plays in increasing productive capacity.

But jobs, an increased tax base and a cut in the number of people seeking federal and state aid in the face of diminishing job prospects are only the first of construction's economic benefits.

Deficient transportation networks can restrict commerce, even hinder new business development and jobs creation.

- 75 percent of the value of all freight rides the roads.
- Nearly 100 percent of all intracity freight rides the roads.
- 65 percent of all military shipments rides the roads.
- 93 percent of all trips are made on the road.

The Transportation Research Board, studying the effects of road improvements, discovered that access to good transportation is a key aspect in locating new plants and expands the area from which a workforce may be anticipated by increasing safety and cutting transportation costs. In fact, one industry report considers low transportation costs as essential to a manufacturer's ability to compete in the marketplace.

Public Safety and Health. The Urban Institute reports that "The poor condition of the water system threatens [Cleveland's] fire protection capability, and could contribute to future increases in fire insurance rates for area residents. Fire insurance grades are set by a private organization, the Insurance Services Office [ISO], based on periodic evaluation of municipal fire departments and water systems. On a 10-point scale where a grade of one is superlative, the ISO in 1970 gave Cleveland a desirable grade of three [two was the highest grade given any city]. Future evaluations could bring a lowering of this grade if pressure, flow adequacy and reliability continue to decline."

Clearly, Cleveland's deteriorating water supply and distribution systems are having serious consequences. An inability to fight fires threatens public safety and health. Conversely, an adequate water supply and distribution system provides adequate protection. If the only danger to the public were water pressure, the problem would only be half as serious as it really is. According to the EPA, 270 waterborne disease outbreaks occurred between 1970 and 1979. Some experts estimate the actual number is 10 times that and affects the health of more than half a million people annually.

The GAO sees drinking water contamination "emerging as one of the most serious health and environmental problems facing our nation during the '80s." The EPA itself reports that of the 250,000 on-land waste disposal sites across the country, some 51,000 [20 percent] may contain hazardous wastes, placing groundwater supplies in jeopardy. Groundwater, the EPA notes, is the principle source of water for more than 50 percent of the nation's population.

The federal agency estimates that some $1.3 billion would have to be spent by 1983 to bring deficient water supply systems up to legislated drinking water standards. In all, the EPA estimates, 13,600 or 21 percent of the 65,000 total number of year-round water supply systems in use, don't meet drinking water standards.

Conclusion

The needs of America's public works network are vast, the solutions must be untangled from complex political and economic considerations, and the funding must be found both in and apart from traditional sources. The price of rebuilding a deteriorating country will be unprecedented, but it also offers vast benefits in employment, public health and safety, and economic growth.

The nation must approach the issue with the attitudes that the work **must** be done.

The ability of the nation to regenerate its economic base directly determines its future vitality, and the futures of its citizens.

To meet its responsibility tu the nation's current and future needs, the Associated General Contractors of America will continue to monitor infrastructure quality and recommend programs which will restore the nation's public works inventory.

Specifically, the Congress should initiate a program which would:

- Maintain a carefully inventoried list of public works needs and costs against which national and regional priorities can be set and funding can be allocated.
- Establish a five-year plan to set public works construction goals to meet existing needs and ensure economic growth.
- Blend traditional and alternative financing strategies, as needed, to provide necessary funding for the program.

Chairman Rostenkowski. Mr. Alexander, you may proceed.

STATEMENT OF JOSEPH ALEXANDER, CHAIRMAN, AMERICAN PUBLIC TRANSIT ASSOCIATION

Mr. Alexander. Thank you, Mr. Chairman.

I am Joe Alexander, chairman of the American Public Transit Association. I appear today on behalf of the nearly 300 bus and rail transit systems across the country and an equal number of Government service, and manufacturing organizations which support and supply the Nations transit systems.

APTA appreciates this opportunity to appear before the committee to offer its continued strong support for immediate passage of the user fee proposal under consideration today.

Joining me this morning is Lewis W. Hill, chairman of the Regional Transportation Authority, Chicago.

Following my brief statement, we will be pleased to respond to any questions which you or members of the committee may have.

As I have already indicated, the transit industry remains fully supportive of and committed to passage of the user fee proposal at the earliest opportunity. In recent months, the scope of the Nation's infrastructure needs has received increasing attention in the press and among policymakers at all levels.

I cannot stress strongly enough the important role of transit as a key component of our infrastructure. Effective public transit is vital if we are to maintain balanced transportation in support of our economic recovery.

This is true in our large urban centers which still house the majority of our population and economic capacity.

It is equally true in smaller areas which are experiencing the most rapid growth in ridership.

It is true in many larger areas where growth has slowed but where the majority of trips to the central business districts are still made on transit.

And, it is true in rapidly growing areas where adequate transit service is essential to support economic growth, reduce congestion, decrease travel time, and maintain productivity, generally.

The proposed 5 cent increase in user fees, and particularly the 1 cent for public transit, is critical if basic transit services are to be maintained. The dedication of a stable source of funding for transit through the user fee is essential if our current and future transit infrastructure needs are to be met.

At the present time, the transit industry is projecting over $50 billion in capital requirements over the next 10 years. This represents the need for a continuing sustained capital investment program of $5 billion annually, in current dollars.

Based on the present condition of existing transit facilities, immediate needs are even greater. To modernize and rehabilitate existing transit facilities to a reasonable level would require the immediate commitment of over $10 billion.

WE MUST ACT

To replace over 15,300 buses, now over 12 years old; to replace nearly 3,000 rail cars, now over 30 years old; to rehabilitate miles of rail lines and other bus and rail facilities; and to continue the construction of new systems already under way.

In addition, I would be remiss if I did not also mention the estimated $3.5 billion additional that is needed today to make timely commitments to planned extensions and new systems. Many of these projects have already received careful justification and, in many cases, substantial local commitments.

Clearly, the additional $1.1 billion from user fee revenues will be vital in any attempt to maintain even the most basic transit services.

In reviewing the various mechanisms for allocation of the user fee to transit, we continue to strongly support the program outlined in H.R. 6211. As you know, the transit industry and the services it provides are diverse. Needs vary considerably, depending on regional growth patterns, the age and size of the systems and the modes of service being provided—bus, rail, or a combination of both.

H.R. 6211 provides a structure and flexibility which is most sensitive to these differing needs. In addition, it provides for long-sought changes to current allocation mechanisms which have received strong bipartisan support in Congress and throughout the industry. Also, H.R. 6211 retains the present decisionmaking mechanism and designated recipient structure that is necessary to insure that sound transit programs can be fully carried out on a timely basis.

I would like to note also that H.R. 6211 provides for continued Federal support of transit operations.

Meeting the operating needs of the transit industry is, in many cases, as critical as meeting projected capital needs. This is true particularly in medium and small properties and new systems where the capital plant is in relatively good condition or where stable and reliable State and local funding mechanisms are still being actively developed.

Maintaining the Federal operating program at least at fiscal year 1982 levels is basic to the provision of effective transit services.

Finally, the current state of the economy has given rise to considerable debate over the need to actively promote new job creation. While the urgency of our transit needs and the merits of the user fee should require no further debate, the investment of $1.1 billion in our public transit infrastructure will have a considerable positive impact on new job formation.

Attached to our testimony this morning is a preliminary analysis which suggests that $1.1 billion per year in new transit investments will support the formation of nearly 84,000 additional full time equivalent jobs, both direct and induced. Most of these benefit industries that are the most depressed in the country, including the construction industry, the metals industry, the wholesale industry, and others.

Also attached to our statement is a selected list of projects from 52 agencies around the country, requiring over $3.1 billion, that are immediately ready to go. A more exhaustive listing would certainly include dozens more much-needed improvements, also ready for immediate action, which can only be carried out with the addition of user fee revenues.

In summary, Mr. Chairman, our Nation needs a balanced system of transportation and sound public transit services in order to support economic recovery. The immediate and future needs of the transit industry are considerable and cannot be reasonably met without the enactment of the 5-cent user fee proposal and dedication of the 1 cent equivalent to public transportation.

We strongly urge you and this committee to act as expeditiously as possible in approving the proposal before you.

Thank you.

Chairman ROSTENKOWSKI. Thank you, Mr. Alexander.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION

Thank you, Mr. Chairman. I am Joe Alexander, Chairman of the American Public Transit Association. I and my colleagues, whom I will introduce in a moment, are here today on behalf of the APTA membership which includes bus and rail transit systems across the country which carry 94 percent of all transit riders in the United States, and an equal number of government, service, and manufacturing organizations which support and supply the nation's public transit systems.

APTA appreciates this opportunity to appear before the Committee to offer its continued strong support for immediate passage of the user fee proposal under consideration today.

Joining me this morning are Mr. Paul E. Means, Board member of the Massachusetts Bay Transportation Authority, Boston, and Mr. Lewis W. Hill, Chairman of the Regional Transportation Authority, Chicago.

Following my brief statement, we will be pleased to respond to any questions which you or members of the Committee may have.

As I have already indicated, the transit industry remains fully supportive of and committed to passage of the user fee proposal at the earliest opportunity. In recent months, the scope of the nation's infrastructure needs has received increasing attention in the press and among policy makers at all levels.

I cannot stress strongly enough the important role of transit as a key component of our infrastructure. Effective public transit is vital if we are to maintain balanced transportation in support of our economic recovery.

This is true in our large urban centers which still house the majority of our population and economic capacity.

It is equally true in smaller areas which are experiencing the most rapid growth in ridership.

It is true in many larger areas where growth has slowed but where the majority of trips to the central business districts are still made on transit.

And, it is true in rapidly growing areas where adequate transit service is essential to support economic growth, reduce congestion, decrease travel time, and maintain productivity, generally.

The proposed five cent increase in user fees, and particularly the one cent for public transit, is critical if basic transit services are to be maintained. The dedication of a stable source of funding for transit through the user fee is essential if our current and future transit infrastructure needs are to be met.

At the present time, the transit industry is projecting over $50 billion in capital requirements over the next ten years. This represents the need for a continuing sustained capital investment program of $5 billion, annually, in current dollars.

Based on the present condition of existing transit facilities, immediate needs are even greater. To modernize and rehabilitate existing transit facilities to a reasonable level would require the immediate commitment of over $10 billion dollars. We must act:

To replace 15,300 buses, now over 12 years old;

To replace nearly 3,000 rail cars, now over 30 years old;

To rehabilitate miles of rail lines and other bus and rail facilities; and;

To continue the construction of new systems already underway.

In addition, I would be remiss if I did not also mention the estimated $3.5 billion additional that is needed today to make timely commitments to planned extensions and new systems. Many of these projects have already received careful justification and, in many cases, substantial local commitments.

Clearly, the additional $1.1 billion from user fee revenues will be vital in any attempt to maintain even the most basic transit services.

In reviewing the various mechanisms for allocation of the user fee to transit, we continue to strongly support the program outlined in H.R. 6211. As you know, the transit industry and the services it provides are diverse. Needs vary considerably, depending on regional growth patterns, the age and size of the systems and the modes of service being provided—bus, rail or both.

H.R. 6211 provides a structure and flexibility which is most sensitive to these differing needs. In addition, it provides for long-sought changes to current allocation mechanisms which have received strong bi-partisan support in Congress and throughout the industry. Also, H.R. 6211 retains the present decision-making mechanism and designated recipient structure that is necessary to insure that sound transit programs can be fully carried out on a timely basis.

I would like to note also that H.R. 6211 provides for continued federal support of transit operations.

Meeting the operating needs of the transit industry is, in many cases, as critical as meeting projected capital needs. This is true particularly in medium and small properties and new systems where the capital plant is in relatively good condition or where stable and reliable state and local funding mechanisms are still being actively developed. Maintaining the Federal operating program at least at fiscal year 1982 levels is a basic to the provision of effective transit services.

Finally, the current state of the economy has given rise to considerable debate over the need to actively promote new job creation. While the urgency of our transit needs and the merits of the user fee should require no further debate, the investment of $1.1 billion in our public transit infrastructure will have a considerable positive impact on new job formation.

Attached to our testimony this morning is a preliminary analysis which suggests that $1.1 billion per year in new transit investments will support the formation of nearly 84,000 additional full time equivalent jobs, both direct and induced.

Direct employment alone from this investment will considerably benefit many of the industries which are currently among the most depressed in the country.

Over 5,200 direct jobs in both the construction and business service sectors;
Over 4,800 direct jobs in maintenance and repair industries;
Nearly 4,000 direct jobs in the motor vehicle industry;
Over 2,800 direct jobs in the metals industries; and
Over 2,000 direct jobs in the wholesale industry.

We are aware that the Chairman of the President's Council of Economic Advisors has suggested that a small, first year net reduction in employment may result from the user fee if the entire cost is equated with an identical reduction in consumer spending. We feel, however, this result is unlikely. First, it is unclear that user fee costs would be made up totally out of consumer spending. Some portion will undoubtedly be borne by suppliers. Second, and perhaps most importantly, fuel prices are now extremely soft. Increased costs to the consumer from the user fee will in part be offset by continued overall declines in fuel prices, therefore with no net loss on consumer experiences. The small potential first year job loss is unlikely to occur. Finally, no one, including Mr. Feldstein, disputes the substantial job creation that will result in the long term from the much needed investments in transit.

To allay some of the concern over short term impacts we have also attached to our testimony a selected list of projects from 52 agencies around the country, requiring over $3.1 billion, that are immediately ready to go. A more exhaustive listing would certainly include dozens more much-needed improvements, also ready for immediate action, which can only be carried-out with the addition of user fee revenues.

In summary, Mr. Chairman, our nation needs a balanced system of transportation and sound public transit services in order to support economic recovery. The immediate and future needs of the transit industry are considerable and cannot be reasonably met without the enactment of the five cent user fee proposal and dedication of the one cent equivalent to public transportation.

We strongly urge you and this Committee to act as expeditiously as possible in approving the proposal before you.

Thank you.

ATTACHMENT 1

Current transit needs

	Millions
Bus replacement: 15,300 over 12 years old at $150,000	$2,300
Rail vehicle replacement (net of new orders):	
Heavy: 1,965 over 30 years old at $900,000	1,800
Light: 574 over 30 years old at 700,000	405
Commuter: 448 over 30 years at 500,000	224
2,987 new vehicles	2,429
Bus facilities: $1.4 billion estimated over 5 years; three-fifths estimated immediately	840
Rail facilities: $13.5 billion estimated over 10 years; estimate 30 percent is currently needed commitment based on 3 year time horizon for project initiation	4,050
Subtotal modernization needs	9,619
6 systems under construction at $8.350 cost to complete (10 years) divide by 10 for current annual	835
Subtotal current needs	10,454
27 extensions at 4.3 billion (10 years) estimate 30 percent is currently needed commitment based on 3 year time horizon for project initiation	1,290
9 new starts at 6.907 (10 year) estimate 30 percent currently needed, as above	2,072
Total needs	13,816

ATTACHMENT 2

ESTIMATED EMPLOYMENT IMPACTS OF USER FEE INVESTMENT IN TRANSIT

The user fee proposal provides for the equivalent of a five cent increase in the existing federal gasoline tax and excise taxes with one cent provided for public transit. The one cent is projected to yield approximately $1.1 billion per year for transit investments. The following analysis provides an estimate of the employment generated from $1.1 billion.

Methodology summary

The methodology used in this analysis is based on the application of the input-output technique (I–O) to measure direct labor earnings impacts. The specific input-output model used was the Regional Industrial Multiplier System (RIMS II) developed by the U.S. Department of Commerce, Bureau of Economic Analysis. The RIMS II model is a 1980, updated version of the U.S. Input-Output Structures study.

The RIMS II model accounts only for direct (on-site and off-site) employment impacts. Total employment estimates also incorporate the effects of secondary or induced employment stemming from increases in household income and expenditure, and corporate profits. The induced employment multiplier used to estimate these indirect impacts was 1.365.[1]

A more complete description of the methodology is provided in the attached Addendum.

Results of analysis

Total Employment Generated.—Should the $1.1 billion in user fee revenues be utilized for capital projects, the analysis indicates that an estimated total of 84,000 full time equivalent (FTE) jobs will be generated. This includes direct employment of 35,400 and indirect or induced employment of 48,600.

The $1.1 billion investment from the user fee will result in added employment within each of the 37 industrial sectors that make up the U.S. economy. Although the employment impact among sectors varies, there are major impacts within several industry groups that are presently among the most depressed, nationwide.

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[1] This factor is based on Bureau of Labor Statistics (BLS) estimates which have been used in previous UMTA and FHWA studies.

This is illustrated in Table 1 which indicates that over 80 percent of the direct employment impacts—over 28,000 jobs—will occur in nine industry groups, including additional direct employment of 5,200 in construction, 3,900 in motor vehicle industry, 2,800 in the metal industry and 2,000 in wholesale trade.

Induced employment, which varies somewhat for each industry, could more than double the total direct jobs created in each of these industries.[2]

Table A-2 in the Addendum indentifies the projected amount of additional direct employment (FTE) in each industry group resulting from every $100 million in transit capital investment for various project types.

TABLE 1.—ESTIMATED DIRECT EMPLOYMENT INCREASES FROM $1.1 BILLION IN TRANSIT CAPITAL INVESTMENT BY MAJOR INDUSTRY GROUPS

Industry group	Direct employment impact [1]	Percent of total direct employment
Construction	5,221	15
Maintenance and repair	4,897	14
Metals	2.809	8
Machinery	1,745	5
Motor vehicles	3,934	11
Transportation	1,189	3
Wholesale	2,020	6
Real estate	1,242	3
Business and professional services	5,281	15
Other industries	7,051	20
Total	35,388	100

[1] Including on-site and off-site direct impacts.

Source: American Public Transit Association.

Employment generated by project type.—Three basic types of capital projects were used in this analysis; bus and bus facilities, rail modernization, and new starts. The total direct and induced employment impacts for each of these types of projects is projected in Table 2 in terms of full-time equivalent (FTE) employment per $100 million of investment.

TABLE 2.—*Estimated employment produced by project type per $100 million investment (FTE)*

Project type:	
Bus and bus facilities	7,450
Rail modernization	7,590
New starts	7,960

Historically, the UMTA capital programs have supported a mix of projects in these three categories. Table 3 provides an estimate of total employment resulting from $1.1 billion in capital investments assuming a mix of projects representative of past trends in UMTA funding.

Based on the historic pattern of UMTA capital investments (40 percent bus related, 40 percent rail modernization, 20 percent new starts), an estimated $440 million would be committed to bus and bus facility projects, producing an estimated total of 32,800 jobs (FTE). Similarly, $440 million for rail modernization would produce 33,400 jobs (FTE) and $220 million for new starts an additional 17,500 jobs (FTE).

Notes accompanying the table describe the assumptions made in arriving at the assumed mix of capital investments.

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[2] Specific multipliers were not derived for each industry group.

TABLE 3.—PROJECTED EMPLOYMENT BY PROJECT TYPE FROM $1.1 BILLION IN TRANSIT CAPITAL INVESTMENT

Project type [1] and Element [2]	Estimated investment [1] ($100 million)	Estimated employment (FTE)
Bus and bus facilities:		
Vehicles	257.0	18,476
Facilities	183.0	14,303
Subtotal	440.0	32,779
Rail modernization:		
Vehicles	101.8	7,319
Rehabilitation	233.5	17,154
New facilities	81.8	6,333
Professional services	21.2	2,597
Other	1.7	
Subtotal	440.0	33,403
New starts:		
Vehicle	19.2	1,380
New construction	147.6	11,427
Professional services	38.4	4,704
Other	14.8	
Subtotal	220.0	17,511
Total	1,100.0	83,693

[1] Assumes a mix of capital investments from $1.1 billion of: 40 percent Bus and Bus Facilities; 40 percent Rail Modernization; and 20 percent New Starts.

Source: Historical mix of discretionary capital projects in UMTA capital program.

[2] Assumes a mix of expenditures in Bus and Bus Facilities of: 58.4 percent vehicles; and 41.6 percent facilities.

Source: UMTA Fiscal Year 1983 Budget Request.

Assumes a mix of expenditures in rail modernization of: 23.1 percent vehicles; 53.1 percent maintenance and rehabilitation; 18.6 percent new construction on existing systems; and 4.8 percent professional services.

Source: Review of (3) representative rail modernization projects now fully funded and underway.

Assumes a mix of expenditures in new starts of: 8.7 percent vehicles; 67.1 percent new construction; 17.5 percent professional services; and 6.7 percent other—no employment impact, e.g. right-of-way acquisition, etc.).

Source: Review of Four (4) representative new start projects now fully funded and underway.

Employment Impacts of Operating Assistance.—Should a portion of the user fee be utilized to cover transit operating costs, substantial employment results. Comparable analysis of the employment impacts of operating expenditures indicate that for each $100 million of investment, 3,250–3,420 direct and 7,686–8,088 total jobs (FTE) are generated.[3]

The employment impact of investments in transit operations is, therefore, generally comparable to the impact of various types of capital investments as indicated in Table 2.

Meeting the operating needs of the transit industry is, in many cases, as critical as meeting projected capital needs. This is true particularly in medium and small properties and new systems where the capital plant is in relatively good condition, and where stable and reliable state and local funding mechanisms are still being actively developed.

Addendum: Methodology

I. Analytical framework

The basic method used in this estimation of employment impacts of capital investment on transit programs was application of the input-output (I–O) technique to measure the direct labor earning impacts in 37 industries constituting the U.S. economy. The computed earnings-employment coefficients for each of the 37 industries were used to derive the total direct (on-site and off-site) employment impacts within individual I–O sectors. Employment generation is expected to increase household incomes and expenditures, and corporate profits, with further increases in output and employment within the U.S. economy. Therefore, direct employment impacts were expanded to account for the induced multiplier effect in arriving at estimates of total employment impacts.

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[3] Direct employment from operations was estimated from the "Local Government Passenger Transit," category (79,0100), in the RIMS II model and APTA analysis of the operating cost structure and employment levels in the industry.

II. Model and sources

The Regional Industrial Multiplier System (RIMS II) Model was the I-O technique used in this study. The original model was developed by the U.S. Department of Commerce, Bureau of Economic Analysis and contained information on inter-industry-linkages of 478 industrial sectors (RIMS Sectors). The RIMS II Model used in this analysis was the 1980 updated version of the 1972 U.S. Input-Output table. The earnings multipliers and coefficients were normalized to one year—1980. The expenditure mix of various transit projects was developed from recent historical data as described in the footnotes to Table 3.

III. Calculations

A. *Direct Impacts.*—The initial stage of the calculations involved the estimation of incremental direct employment impacts on 37 industrial sectors per $100 million of transit capital expenditures. The employment impacts accounted for variations in average work hours per week among industries so that they are expressed in full-time equivalent jobs (FTE). Transit expenditures for new starts, rail modernization, and bus projects were categorized into five RIMS Sectors: Motor Vehicles, New Transit Facilities, Maintenance and Repair of Transit Facilities, Garage and Service Stations, and Miscellaneous Professional Services. The categorization was necessary to obtain more accurate estimates, since the degrees of capital/labor intensiveness are expected to vary among these RIMS Sectors.

An additional category ("Other items") was computed, but was excluded from the employment impact estimates. These items include real estate acquisition, relocation costs, and similar expenditures, which are expected to have minimal impacts on employment generation.

The shares of RIMS Sector components within each major element are highlighted in Table A-1.

TABLE A-1.—PERCENTAGE SHARE OF RIMS SECTORS

[In percent]

RIM sectors and codes	New starts	Rail modernization	Bus and bus facilities
Motor vehicles (59.0301)	8.74	23.14	58.40
New transit facilities (11.0308)	67.08	18.58	
Maintenance and repair of transit facilities (12.0211)		53.06	
Garages and service stations (11.0204)			41.60
Professional services (73.0300)	17.46	4.82	
Other items	6.72	0.40	
Total	100.00	100.00	100.00

Source: See footnotes, Table 2.

B. *Indirect impacts.*—The current option for the RIMS II technique accounts only for the direct (on-site and off-site) employment impacts in industries. To estimate the total (direct and induced/indirect) impacts, the induced employment value of 1.365 was used. This estimate was based on Bureau of Labor Statistics (BLS) studies which have been used in various Urban Mass Transportation Administration (UMTA) and Federal Highway Administration (FHWA) analyses. The estimate incorporates effects of spending from increased profits and wage income.[4]

IV. Results

The direct employment impacts per $100 million expenditures of new starts, rail modernization and bus projects on each of the 37 major industrial sectors are presented in Table A-2. The total impacts both direct and induced are also shown. The relatively high employment impacts of new starts projects are attributable to the higher labor intensity of new transit construction work and professional services.

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[4] See JWK International Corporation, National Level Employment Impacts of the Department of Transportation's Grant Programs, Prepared for U.S. Department of Transportation, Volume II: Main Report, October 1981. pp. 51-56.

Bus projects would generate somewhat fewer jobs per unit of investment since a larger proportion of these project costs is expended on manufacture and assembly of motor vehicles which are more capital intensive.

TABLE A-2.—DIRECT EMPLOYMENT IMPACTS PER $100 MILLION IN TRANSIT INVESTMENTS BY INDUSTRY GROUP [1] (FULL-TIME EQUIVALENT EMPLOYMENT)

Industry	Rail new starts	Rail modernization	Bus and bus facilities
1. Agriculture	18.1	12.8	16.2
2. Forestry and fisheries	1.3	2.0	3.1
3. Coal mining	3.2	3.1	5.5
4. Petroleum and natural gas	8.4	12.0	13.7
5. Other mining	19.8	11.8	15.8
6. New construction	929.5	257.4	464.3
7. Maintenance and repair	15.3	1,085.6	18.8
8. Food and kindred products	6.9	7.8	7.2
9. Textiles	7.2	15.1	30.6
10. Apparel	8.1	18.4	45.5
11. Paper	11.3	10.5	18.4
12. Printing and publishing	20.7	20.4	30.2
13. Chemicals	29.5	46.4	49.5
14. Rubber and leather	23.3	43.6	72.1
15. Lumber and furniture	18.2	26.2	43.0
16. Store, clay and glass	76.5	35.8	93.9
17. Primary metals	65.3	60.5	116.5
18. Fabricated metals	143.5	116.7	240.4
19. Non-electrical machinery	47.1	47.0	114.7
20. Electrical machinery	45.8	80.1	108.4
21. Motor vehicles	93.2	241.6	605.9
22. Other transportation equipment	2.6	2.3	3.8
23. Instruments	5.7	6.2	11.4
24. Miscellaneous manufacturing	8.4	5.9	7.9
25. Transportation	122.9	89.1	119.7
26. Communication	60.1	59.6	61.6
27. Utilities	21.1	21.4	33.5
28. Wholesale trade	115.3	140.4	260.8
29. Retail trade	36.1	55.7	59.2
30. Eating and drinking establishments	26.6	30.9	24.4
31. Finance	33.8	37.2	36.3
32. Insurance	17.9	20.2	16.4
33. Real estate	126.7	15.0	103.8
34. Lodging and amusement	19.7	13.1	13.7
35. Personal services	6.1	5.6	9.3
36. Business services	1,124.7	405.3	232.8
37. Other services	45.7	42.2	41.5
Total direct impacts	3,365.6	3,204.9	3,149.8
Total direct and induced impacts	7,959.6	7,579.6	7,449.3

[1] Including on-site and off-site direct impacts.

Source: American Public Transit Association.

ATTACHMENT 3

AMERICAN PUBLIC TRANSIT ASSOCIATION—SELECTED TRANSIT CAPITAL PROJECTS READY FOR IMMEDIATE IMPLEMENTATION

[In millions of dollars]

Transit agency	Type	Cost
Intercity Transit, Olympia, Wash	Bus maintenance/operations/administration facility construction.	6.00
York Area Transportation Authority, York, Pa	Bus maintenance/storage facility construction	2.25
Ben Franklin Transit, Pasco, Wash	Bus maintenance/operations/administration facility construction.	5.34
Mass Transportation Authority, Flint, Mich	Bus maintenance/administration facility expansion, rolling stock procurement.	5.83
New Jersey Transit, Newark, N.J	Bus garage construction and facility rehabilitation; rail electrification, facility construction, bridge repairs.	218.00
Utica Transit Authority, Utica, N.Y	Rolling stock, communication system procurement	1.73
Greater Cleveland Regional Transit, Authority, Cleveland, Ohio.	Rail station and right-of-way rehabilitation	200.00
Mobile Transit Authority, Mobile, Ala	Bus garage facility purchase and renovation, rolling stock and equipment procurement.	1.66
Lehigh and Northampton Transportation Authority, Allentown, Pa.	Bus garage improvement, maintenance equipment and folling stock procurement.	4.16
Indianapolis Public Transportation Corporation, Indianapolis, Ind.	Bus operating facility constructionn, rolling stock procurement.	8.50
Public Transportation Administration, El Paso, Tex	Bus vehicle modernization and rehabilitation, transit mall construction.	6.57
Monterey-Salinas Transit, Monterey, Calif	Bus maintenance facility construction	1.33
Mass Transit Administration, Baltim [illegible]	Bus garage construction; rail rapid transit extension	225.00
Des Moines Metropolitan Transit [illegible] Moines, Iowa.	Rolling stock procurement	0.88
Corpus Christi Transit System, [illegible]	Bus facility and rolling stock rehabilitation	1.13
Southeastern Pennsylvania Transportation [illegible] Philadelphia, Pa.	Rail station, right-of-way, and electrification rehabilitation; bus facility construction.	96.00
Department of Transportation Services, [illegible]	Bus rolling stock procurement and rehabilitation, bus maintenance facility rehabilitation and construction.	41.71
Billings Metropolitan Transit, Billings [illegible]	Bus maintenance facility construction	1.61
Isabella County Transportation Commission, [illegible] Pleasant, Mich.	Bus facility construction	0.50
Santa Clara County Transportation Agency, San Jose, Calif	Transit mall construction	34.00
Niagara Frontier Transportation Authority, Buffalo, N.Y	Bus transit mall and facility construction, but rolling stock improvement and procurement; rail station and right-of-way construction.	88.12
Jackson Transit System, Jackson, Mich	Bus rolling stock rehabilitation	0.24
Western Reserve Transit Authority, Youngstown, Ohio	Bus maintenance facility and passengr loading zone construction.	3.40
Long Beach Public Transportation Company, Long Beach, Calif.	Bus maintenance/operating facility modernization and expansion.	5.90
Central Ohio Transit Authority, Columbus, Ohio	Bus equipment and rolling stock procurement, park and ride lot construction, storage facility construction.	41.08
Northeastern Illinois Regional Transportation Authority, Chicago, Ill.	Rail right-of-way and signal rehabilitation; bus facility construction.	204.00
Chicago Transit Authority, Chicago, Ill	Rail facility and equipment rehabilitation, bus facility and equipment rehabilitation.	310.06
Burlington Northern Railroad Company, Chicago, Ill	Rail Terminal, maintenance facility construction	26.00
Memphis Area Transit Authority, Memphis, Tenn	Bus rolling stock procurement, maintenance facility improvements.	17.42
Kansas City Area Transportation Authority, Kansas City, Mo.	Bus rolling stock rehabilitation	3.00
Port Authority of Allegheny County, Pittsburgh, Pa	Light rail construction	150.00
K-TRANS, Knoxville, Tenn	Bus passenger information system and rolling stock procurement, bus facility expansion.	0.33
Washington Metropolitan Area Transit Authority, Washington, D.C.	Bus rolling stock procurement and rehabilitation, bus facility construction and rehabilitation; rail right-of-way and station construction, rail rolling stock procurement.	472.00

AMERICAN PUBLIC TRANSIT ASSOCIATION—SELECTED TRANSIT CAPITAL PROJECTS READY FOR IMMEDIATE IMPLEMENTATION—Continued

[In millions of dollars]

Transit agency	Type	Cost
Southern California Rapid Transit District, Los Angeles, Calif.	Bus garage, terminal construction and rehabilitation	57.80
Dallas Transit System, Dallas, Tex	Bus rolling stock improvement and procurement, bus lane construction, bus garage construction.	57.43
Metropolitan Transit Authority of Harris County, Houston, Tex.	Rail right-of-way, facility construction; bus facility, park and ride lot, terminal, bus lane construction; road and street improvements.	286.19
Metropolitan Transit Commission, Minneapolis, Minn	Bus rolling stock rehabilitation	13.00
Metropolitan Transportation Commission, San Francisco, Ca	Bus facility, rolling stock rehabilitation and construction; rail facility, rolling stock rehabilitation and construction.	200.00
Southern Michigan Transportation Authority, Detroit, Mich	Rail engineering, station construction	30.00
Massachusetts Bay Transportation Authority, Boston, Mass	Rail rolling stock, right-of-way, bridge, tunnel, station, signal, and electrification rehabilitation; bus rolling stock rehabilitation.	164.00
Metropolitan Transportation Authority, New York, N.Y	Rail modernization and rehabilitation; bus procurement and facility rehabilitation.	96.00
Austin Transit System, Austin, Tex	Bus rolling stock procurement, park and ride lot construction.	3.46
Northwest Suburban Mass Transit District, Chicago Ill	Rail facility construction	10.00
Milwaukee County Transit System, Milwaukee, Wis	Bus rolling stock procurement	35.00
Department of Transportation, Madison, Wis	Bus rolling stock procurement, facility expansion	4.55
Kanawha Valley Regional Transportation Authority, Charleston, W. Va.	Bus facility renovation, rolling stock procurement	1.82
Palm Beach County Transportation Authority, West Palm Beach, Fla.	Bus rolling stock and equipment procurement	2.56
Regional Transportation Commission, Reno, Nev	Bus facility construction	6.00
Saginaw Transit System, Saginaw, Mich	Bus operations center construction	3.50
Rhode Island Public Transit Authority, Providence, R.I	Bus rolling stock and equipment procurement, bus facility renovation.	7.55
Valley Transit, Appleton, Wis	Bus garage construction, rolling stock procurement	3.18
Central Contra Costa Transit Authority, Walnut Creek, Calif	Bus rolling stock and equipment procurement, bus facility construction.	8.82
Total		3,174.61

Chairman ROSTENKOWSKI. The Chair would like to make the observation that Mr. Hill, a long-time friend of the Chair and an outstanding member of the Chicago community, is here to testify. I am very happy to see him here to lend his thoughts to this legislation.

I know Marty Russo, my colleague from Illinois, joins me in welcoming Mr. Hill to the committee.

STATEMENT OF LEWIS HILL, CHAIRMAN, REGIONAL TRANSPORTATION AUTHORITY OF NORTHEASTERN ILLINOIS, ON BEHALF OF THE AMERICAN PUBLIC TRANSIT ASSOCIATION

Mr. HILL. Thank you, Mr. Chairman.

I am here to second what Mr. Alexander said with regard to the public transit needs. I think it has been repeated enough times that I don't have to go through the statement and repeat the urgent needs we have in public transportation for the added capital programs. We, too, are in a serious state of disrepair with respect to both the public transit system within the city of Chicago and throughout the region.

I would like to make two points briefly and submit the rest of my statement for the record. We have only been able to see digests of the proposed legislation. On that basis, I would urge that the committee implement the 5-cent user fee increase as expeditiously as possible, but that any major changes in the method of allocation or utilization of transit funds be deferred at this time and be incorporated into those pending legislative actions that have been under serious consideration separately.

There are a number of projects we in our area could use and could move forward with immediately, including bus garage rehabilitation and replacements, rehabilitation of commuter and rapid transit rights-of-way, and commuter rail yard improvements. Many of the downtown bridges that are used by the public transit system need to be replaced and rehabilitated, along with improvements of railroad grade crossings through upgrading or grade separation. We also need replacement of the bus fleet and the rapid transit fleet.

All of these elements are before us. We estimate the present value of the public transit system in the Chicago metropolitan area is about $17 billion, if we were to build it now. We are obviously not putting into it what a prudent businessman would for repair and rehabilitation. We are investing about $225 million a year to upgrade and replace what we presently have. You can see this is far short of what is needed to keep even, and so we would urge your favorable consideration of the 5-cent user fee with 1 cent for transit.

[The prepared statement follows:]

STATEMENT OF LEWIS W. HILL, CHAIRMAN OF THE REGIONAL TRANSPORTATION AUTHORITY OF NORTHEASTERN ILLINOIS

Mr. Chairman and members of the committee:

Thank you for the opportunity to testify before you today on the proposed highway, transit, and user fee legislation. It is my understanding that this legislation was to provide additional and much needed revenues to repair and add to the highways and mass transit systems in this country. I am here to support the 5-cent increase in motor fuels tax and other revenue raising aspects of the legislation, with the understanding that 4 cents will be available for highways and bridges and 1 cent available for capital transit needs.

Our highways, bridges and mass transit systems are in such a state of disrepair and deterioration that it is necessary that we commence this program at the earliest possible time, therefore it is imperative that the user fee be passed in this session.

It is also important that the allocation and utilization of these new funds be accomplished under existing law and as it may later be amended or modified by Congress. There are many changes in the allocation and utilization of highway and transit funds under consideration and review by Congress, but there is not time in this session to fully consider and pass upon major changes in the methods of allocation and utilization of these funds. Therefore, in order to implement this much needed program at the earliest possible time I would recommend that any major changes in the method of allocation or utilization of the funds be eliminated from this legislation.

The following are some projects that RTA could commence immediately as soon as funds are available:

$78 million suburban bus garage facility improvement program; $150 million rehabilitation of commuter rail right-of-way; $55–60 million commuter rail yard improvement program; $65 million downtown Chicago terminal program commuter rail bridge structure; assist in the improvement of railroad grade crossings through upgrading of grade-separation; $132 million CTA bus replacement program; $190 million CTA rapid transit car replacement program; and $160 million upgrade rapid transit track and support facilities.

Chairman **Rostenkowski**. Are there any questions?

Mr. Duncan will inquire.

Mr. **Duncan**. Thank you, Mr. Chairman.

Do any of you gentlemen question the number of jobs that has been estimated that this legislation might create? Do you think it would be—you agree there will be a considerable number of jobs created?

Mr. **Heldenfels**. I believe it is conservative.

Mr. **Duncan**. You think the number is conservative?

Mr. **Heldenfels**. Yes, sir. I believe it is conservative.

Mr. **Duncan**. What about you, Mr. Hill?

Mr. **Alexander**. I would agree it is a conservative estimate. There are a number of things that can happen in moving along with construction projects. To give an example, in our system in Washington, there are about 10 miles of new transit facilities we could build with the addition of revenues from the user fee. That is a lot of construction, and would provide a lot of construction jobs for workers that are not now working in our particular area.

Mr. **Duncan**. Do all you members of the panel agree that it is a conservative estimate?

Mr. **Whitlock**. There is not one thing we are sure the Secretary took into consideration when he arrived at that figure. That is the ripple effect or driving effect that this has on additional State funds that will be required for matching this Federal money; and then those in turn, sometimes, generate additional local funds.

Whether the jobs that will be created by these extra State and local funds will be forthcoming to match these Federal funds may impact the employment picture even more. We just don't know.

Mr. **Duncan**. How much delay are we talking about? Are you geared up so that you could, when the money is available; how long will it take you to gear up to start working?

Mr. **Gaussoin**. If I might perhaps throw in an inquiry, I think—I certainly questioned the number of jobs proposed—but I think we also have to recognize that for every quo there is certainly a quid.

We are in a position where our industry is suffering a loss of employment. For example, Teamster employees in our industry, it has been indicated, are down in the area of 175,000 jobs.

The impact that the taxes as presently proposed on this industry—the issue would bring very substantial injury, and, of course, create a loss of jobs if not corrected into a more responsible level of increase in terms of those special truck taxes.

Mr. **Duncan**. Thank you.

Mr. **Heldenfels**. Mr. Duncan, in Texas, our highway department would be able to advertise for bids to be let in January if we had the money. We have the money. The State just transferred $315 million into the highway fund. They have a system down there that they appropriate from the general fund into the highway fund each year; and what is not used has to go back into the general fund.

Last year, I believe we transferred back into the general fund $90 million. So, we are waiting down there for the Federal funds.

Mr. **Duncan**. Mr. Caywood, is your industry working on contingency plans?

Mr. **Caywood**. I did not hear your question.

Mr. DUNCAN. Your industry, are you working on contingency plans in the event this legislation comes to fruition?

Mr. CAYWOOD. Yes.

Mr. DUNCAN. Ready to go.

Thank you.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Are there any further questions?

Mr. WHITLOCK. I would like to respond to Mr. Duncan's question, Mr. Chairman.

The highway industry is at serious overcapacity. We don't have to do any planning to take double the workload we have now. As we presently exist, we have the equipment and the capacity to handle this increase without doing any planning, any more equipment buying.

The capacity is out there. It is just a matter of hiring the people and putting them on the machines.

Mr. DUNCAN. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. The Chair would like to make an observation.

This is a highway bill for the improvement and maintenance of roads that have been neglected. One of the offshoots of improving our highways or maintaining our highways is that it will create jobs.

In this economy, that is a worthwhile offshoot. However, this program has been pending before this committee since May, and we are ready to move in this direction. It was not the Committee on Ways and Means that dragged its feet about whether or not there should be an increase in the gasoline tax. There was noted the fact that bridges were deteriorating, highways falling apart, and secondary roads being neglected.

The provisions of this legislation will help to move commerce and will help people commute to and from work. That is the purpose of this legislation, gentlemen.

With the help of my colleagues, I intend to move this bill as swiftly as I possibly can.

I hope it creates more jobs than we anticipate. However, the fact is that we are going to put a nickel in the pothole to fix the pothole. If that creates jobs, that is great for the country.

Are there any further questions?

Mr. FRENZEL. Mr. Chairman, I would like to preface my remarks by saying that I am in agreement. As near as I can figure, most economists will tell you that highway construction and rehabilitation is a less labor-intensive effort than business as a whole in this country; and the withdrawing of the money from the private sector and investing it in roads is likely to result in a total overall decline in employment. But, nevertheless, the job has to be done. We are behind. I think that the increase we are considering is going to pass this committee.

I would like to ask Mr. Gaussoin about his testimony with respect to these taxes. I am really concerned about the increase in the heavy vehicle use tax which, as noted earlier, in heavy units is something over 1,100 percent.

Did you have discussions with the Secretary of Transportation about these amounts before this program was put together?

Mr. GAUSSOIN. I think Mr. Whitlock would be best in tune to answer that question.

Mr. WHITLOCK. Mr. Congressman, the answer to that question is yes. We did have numerous conversations with the Secretary concerning the impact of these special taxes on the trucking industry.

Mr. FRENZEL. I take it you were unsuccessful?

Mr. WHITLOCK. We were very unsuccessful.

Mr. FRENZEL. The result is that you were unhappy with the currently proposed schedule of use taxation in his bill; is that correct?

Mr. WHITLOCK. That is absolutely correct. We do support the nickel, Congressman, but we do have problems with the special taxes.

Mr. FRENZEL. I note the Secretary's schedule, or somebody's, whoever invented it, provides that with a weight of 55,000 pounds, no tax is to be paid; with a weight of 80,000 pounds, the tax goes to 2,700. Or you might compare a 60,000-pound unit which would pay $400 worth of tax with the 80,000-pound unit, which would pay $2,700 worth of tax.

Is there any showing that a one-third increase in weight should command an increase in taxes of some 700 percent?

Mr. WHITLOCK. Not to our satisfaction.

Mr. FRENZEL. Does anybody know why the Secretary would be so inclined to excessively overload these units?

Mr. WHITLOCK. They are basing it on a cost allocation study which came out of this committee, I think, in 1978.

Mr. FRENZEL. Whose study was it?

Mr. WHITLOCK. It was DOT's.

Mr. FRENZEL. Does this schedule that was given to us exactly match the results of that study?

Mr. WHITLOCK. We do not think so, Congressman. I want to make one comment, though. There were actually two studies made by DOT. One was the incremental, based on the incremental method, which you don't hear very much about, because, in that particular study, it showed that every category of heavy trucks was paying their fair share under the current tax program.

This is designed to—this study is designed to justify increased taxes on heavy trucks. What happens is the methodology used is called a so-called consumption methodology, in which they attribute all highway damage primarily to weight and to give very little consideration to what we think are key issues in highway deterioration, and that is weather and environment.

Mr. FRENZEL. To go from $3 a thousand to over $30 a thousand does not make any sense to me. Did the survey justify that?

Mr. WHITLOCK. We do not think so, Congressman.

Mr. FRENZEL. The department believes that?

Mr. WHITLOCK. We have grave reservations, Congressman, on the basis of that cost allocation study. We do not, of course, disagree with the incremental method which has been the traditional way to measure cost allocations.

Mr. FRENZEL. Mr. Chairman, may I be permitted to make one more inquiry?

With the exception of the heavy vehicle use tax, are you satisfied with the tax schedule as prepared by the department?

Mr. WHITLOCK. We have real problems with the break as far as it relates to parts and accessories.

Mr. FRENZEL. To what?

Mr. WHITLOCK. Parts and accessories. There is no way you can determine a part for a 30,000-pound truck that is different from one at 32,000 or 35,000. They would have a horrendous administrative problem to say what part and—what part that tax would apply to, and I think that has been brought out in some of the questioning today.

Mr. FRENZEL. Thank you very much.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Whitlock, will you be in touch with Mr. Lewis to discuss the problems that have surfaced in this exchange?

Mr. WHITLOCK. Yes; we will be in touch.

Chairman ROSTENKOWSKI. I want to thank you gentlemen for joining us this afternoon. I want to commend you for working within the timeframe that was established. Thank you very much for your contribution.

The next panel will please join us: Senator Doyen, Mr. Brady, Mr. Irwin, Mr. Koltnow.

Mr. RUSSO [presiding]. Senator Doyen.

STATEMENT OF STATE SENATOR ROSS DOYEN, PRESIDENT, KANSAS STATE SENATE, NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. DOYEN. Mr. Chairman, members of the committee, I am Ross Doyen, president of the Kansas State Senate. I appear before you as immmediate past president of the National Conference of State Legislatures.

NCSL is the only national organization which serves the Nation's 7,500 State legislators. One of NCSL's most important function is to provide State legislatures with a strong voice in the Federal decisionmaking process.

Before proceeding, I would like to thank you, Mr. Chairman, for your consideration in providing NCSL with the opportunity to share with you our views on pending Federal highway and mass transit funding legislation.

I need not describe to you the crisis facing our Nation's highways and mass transit systems. Congress is well aware of the deterioration of our highways, the decline of earmarked highway revenues, and the tremendous increase in the cost of building and maintaining highways. Congress also knows that years of neglect have led to the sorry state of the capital equipment and facilities of public transportation in our Nation.

We must increase spending on our highway and mass transit systems. You are hearing today from public and private groups about the critical needs of our Nation's highways, bridges, and mass transit systems. Many groups and even popular magazines have recently focused on the size of the job before you. I want to refer to just one of these, the testimony of Alice Rivlin, Director of the Congressional Budget Office, delivered to the Senate Committee on Environment and Public Works on August 18, 1982.

Dr. Rivlin estimated the Federal share of annual highway authorizations needed in the 4-year 1983-86 period is $14.6 billion if all Federal-aid highway programs remain structured as they are now. If several of the programs are restructured or turned back to the States under a New Federalism option, the yearly needed Federal spending would still be $10.2 billion. The fiscal year 1981 obligation ceiling on Federal highway expenditures was $8 billion, and highway trust fund revenue for that year was $7.4 billion.

State legislatures have responded positively to the needs of highway and mass transit systems. In the past 2 years alone half the States have raised their motor fuel taxes. Since the Federal motor fuel tax was set at 4 cents a gallon, every State but two have raised their motor fuel tax.

State legislatures also have sought additional revenues for highways by increasing license and registration fees, collecting sales taxes on motor fuel purchases, imposing franchise taxes on oil companies, increasing charges on toll roads and bridges, imposing severance taxes on producers of natural resources, and authorizing bond issues.

State legislatures have also increased support for mass transit systems. States operate all public mass transit service in Connecticut and New Jersey, two of the largest transit States. Between 1975 and 1980 State operating assistance for transit systems doubled from $400 million to $800 million. According to a survey by the American Association of State Highway and Transportation Officials, total State support for mass transit increased by $1.9 billion for 1982. State legislatures have a good record of increasing support for our transportation infrastructure.

But States cannot carry the burden alone. Our Nation's highway program is a partnership between the Federal Government and the States. Meeting the needs of the presently constituted Interstate Highway System alone, according to Dr. Rivlin, will require $9.1 billion a year for the next 4 years. This figure is almost $2 billion more than present yearly receipts of the highway trust fund. Even a slimmed down interstate program, an option CBO offers, would cost $7 billion a year.

The NCSL believes that States should have more responsibility for our Nation's transportation system. In December 1980 NCSL joined with the National Governors' Association in issuing a federalism program. In exchange for increased Federal responsibilities in certain areas the NCSL-NGA policy maintains that States should have the primary responsibility in transportation.

A subsequent NCSL policy statement on revenue turnbacks asserts our belief that both certain Federal taxes and program responsibilities should be returned to the States. In the statement we identified the Federal motor fuel tax as one tax source that could be partially returned to the States along with a turnback of highway program responsibilities that are State and local in nature.

NCSL adopted a comprehensive highway policy at our annual meeting in August 1982. The policy has three major elements:

One, raise revenues that flow into the highway trust fund.

The first source of higher revenues should be the nonmotor fuel taxes that support the trust fund. These should be raised in a manner consistent with the Federal cost allocation study. There should also be a moderate increase in the Federal motor fuel tax. Part of the increased revenues should be used to support capital expenditures of State and local transit systems.

Two, turn back to the States some Federal highway programs.

NCSL favors returning to State controls the urban and secondary highway systems, that part of the bridge program which involves the nonprimary system bridges and nonprimary system safety construction programs.

Three, turn back to States revenues to pay for the returned highway programs.

The Federal Government should return to the States revenues from the highway trust fund sufficient to cover the costs of the returned programs.

We cannot support the revenue portion of the administration's package which is before you now. We support the earmarking of some of the tax increase for mass transit. We know the Federal Government must have more tax revenue to support those highway programs that are national in character. We favor increasing the excise taxes on heavy trucks to assure they pay their fair share of highway costs. The proposal, however, contains no provision for a turnback of revenues or programs to the States. Without this crucial element NCSL cannot support the total program.

Turning back to State control the urban and secondary highway programs and responsibility for nonprimary system bridges, as endorsed by both NCSL and the National Governor's Association, is a reasonable and practical program. Earmarking 2 cents of the motor fuel tax to finance the proposed turnback would mean $2.2 billion a year.

Mr. Russo. If I may interrupt at this point, Senator. We will include the balance of your testimony in the record. I want to ask the members of the panel to stay within the timeframe the committee gave us so we can reach other members of the panel. You have been waiting all day. I appreciate that. Being a State senator yourself, you know how hard it is.

Mr. Doyen. I would sum up by saying we feel real strong that whatever is enacted by your committee and the total Congress, some consideration should be given to turn back some of the programs to the States with the funding to carry out this program.

[Portions of the statement not read follow:]

STATEMENT OF KANSAS STATE SENATOR ROSS DOYEN, PAST PRESIDENT, NATIONAL CONFERENCE OF STATE LEGISLATURES

Earmarking two cents of the motor fuel tax to finance the proposed turnback would mean $2.2 billion a year. This is a reasonable amount from several perspectives.

1. *It is reasonable in terms of the needs of the turnback package.*—Dr. Rivlin in her testimony in August indicated that the needs of the urban and secondary highway systems and non-primary bridges are $2.3 billion a year, $100 million more than the $2.2 billion.

2. *It is reasonable in terms of prospective funding levels of the turnback programs.*—Funding levels close to those in H.R. 6211 will probably be enacted by Congress. Over the four year 1983-86 period, H.R. 6211 as reported by the House Public

Works and Transportation Committee in May provides funding for the turnback programs averaging $2.125 billion a year, only $75 million less than $2.2 billion.

3. The amount of total highway revenues.—The administration's proposal would raise $4.4 billion in new revenue for highway and bridge programs, for a total of close to $12 billion a year. If $2.2 billion of the total highway trust fund receipts were turned back to the States for the turnback programs, the revenue turnback would equal less than 20 percent of total yearly trust fund revenues for highways.

4. It is reasonable in terms of the amount of new revenue.—The proposal will raise an additional $4.4 billion for highway programs. Currently the urban and secondary highway systems and non-primary bridges receive about $1.535 billion a year. Turning back $2.2 billion to the States for these programs means an increase of $665 million, less than 15 percent of the increased revenues.

Our staff has prepared the table attached to my testimony. The table compares for each State a motor fuel tax revenue turnback of two cents a gallon with a turnback of the urban and secondary highway systems and non-primary bridge programs. The figures in the first column are the amount of Federal motor fuel taxes raised in each State in 1981 from one-half of the current four cents a gallon tax. The second column gives the Federal expenditures on the urban and secondary highway systems and non-primary bridges in each State. The third column shows which States would gain revenues and which would lose under the turnback. Since the total funds would be increased, the result is that 38 States gain revenue under the proposal and only 12 State lose. Since total losses come to less than $50 million, financing a hold harmless provision would be easy.

I am honored to serve on the Advisory Commission on Intergovernmental Relations with Members of Congress and the executive branch, other State and local officials, and private citizens. I totally endorse the conclusion of ACIR that our National Government has become overloaded trying to solve too many problems that are State and local in nature. We must revise our Federal System so that Congress, the administration, and the Federal courts can focus on national and international problems. Turning back to the States those highway and bridge programs that are State and local in nature would be an important step. We urge Congress to enact a highway program and highway revenue turnback package.

I will be happy to answer any question.

REVENUE AND PROGRAM TURNBACK PACKAGE

[In millions of dollars]

State	1981 revenue yield from 2 cents of Federal motor fuel tax	Cost of urban, secondary and non-primary bridge programs	1981 tax revenue minus turn back program
Alabama	$41.1	$23.8	$17.3
Alaska	3.5	26.3	−22.8
Arizona	28.0	17.2	10.8
Arkansas	25.2	18.3	6.9
California	219.2	124.0	95.3
Colorado	29.6	19.0	10.6
Connecticut	25.7	15.1	10.6
Delaware	5.9	6.8	−0.9
Florida	93.6	59.3	34.3
Georgia	59.7	35.5	24.2
Hawaii	6.7	7.3	−0.6
Idaho	9.8	11.1	−1.3
Illinois	98.7	85.2	13.5
Indiana	59.1	28.2	30.9
Iowa	33.2	25.1	8.1
Kansas	27.9	25.1	2.8
Kentucky	36.1	32.2	3.9
Louisiana	42.8	42.3	0.5
Maine	10.3	10.1	0.2
Maryland	37.9	26.2	11.7
Massachusetts	44.3	33.9	10.4
Michigan	79.5	47.2	32.3
Minnesota	41.4	34.8	6.6
Mississippi	25.5	15.1	10.4

REVENUE AND PROGRAM TURNBACK PACKAGE—Continued

[In millions of dollars]

State	1981 revenue yield from 2 cents of Federal motor fuel tax	Cost of urban, secondary and non-primary bridge programs	1981 tax revenue minus turn back program
Missouri	$53.5	$30.6	$22.9
Montana	10.1	13.1	−3.0
Nebraska	18.4	17.1	1.3
Nevada	10.3	9.5	0.8
New Hampshire	7.9	9.9	−2.0
New Jersey	64.8	40.0	24.8
New Mexico	16.3	12.0	4.3
New York	107.8	110.5	−2.7
North Carolina	59.7	33.4	26.3
North Dakota	8.8	11.4	−2.6
Ohio	103.9	56.7	47.2
Oklahoma	39.0	19.0	20.2
Oregon	28.5	18.3	10.2
Pennsylvania	98.1	73.7	24.4
Rhode Island	7.4	8.2	−0.8
South Carolina	32.4	19.6	12.8
South Dakota	9.0	11.1	−2.1
Tennessee	50.8	34.2	16.6
Texas	169.0	90.4	78.6
Utah	15.3	10.6	4.7
Vermont	4.8	10.2	−5.4
Virginia	52.6	39.4	13.2
Washington	38.1	31.2	6.9
West Virginia	17.5	14.8	2.7
Wisconsin	44.8	31.2	13.6
Wyoming		9.5	−1.0

Mr. Russo. Charles Brady.

STATEMENT OF CHARLES N. BRADY, DIRECTOR, HIGHWAY DEPARTMENT, AMERICAN AUTOMOBILE ASSOCIATION

Mr. Brady. On behalf of the American Automobile Association, which serves 23 million members, I want to indicate we appreciate this opportunity to comment on the proposed 5-cent-per-gallon fuel tax increase to provide funds for highways and transit.

We are greatly concerned that the current proposal would divert some 20 percent of the new revenues to public transit. As much as we recognize the need for additional revenues in the highway trust fund for needed highway and bridge repair, we cannot support, and must vigorously oppose, any program which would divert badly needed highway revenue to other modes.

With diversion, this is not a user fee. It is the very opposite of a user fee. It is the antithesis of a user fee. It violates the basic user fee concept that this administration has endorsed.

AAA could support a program calling for increased user fees dedicated to highways provided that first, the increase of such fees be based upon findings of the recently reported Federal Highway Cost Allocation Study, and second, balances in the trust fund—over $9 billion at the end of August—be drawn down to an amount sufficient to accommodate normal cash flow requirements under prudent financial management practices. We estimate that the trust fund balance should not exceed $3 billion for a program level of $12 billion.

We believe that any such program should involve making some $6 billion of trust fund balances available immediately with new taxes phased in to maintain the program level as balances are used up and interest income is reduced.

The Federal Highway Cost Allocation Study was sent to Congress on May 13, 1982. This study was mandated in section 506 of the Surface Transportation Assistance Act of 1978 and, in fact, was specifically requested by this committee. So it is your study. It is not the Department of Transportation's study. It is their report to you.

Delegates to the AAA annual meeting held in New Orleans on October 12-14 endorsed the methodology incorporated in this study as superior to that of previous studies and took the position that the study presented an equitable and modern approach to cost allocation.

The delegates adopted the principle that tax increases should reflect the exponential rather than linear relationships of vehicle weight to highway damage occasioned by heavy vehicles and called for the imposition of a weight distance tax or steeply graduated tax increases based upon gross vehicle weight.

As reported to the Congress, the study found that under existing user charge rates automobile owners would be paying their fair share of road costs by 1985. They have been paying more than their share—about 110 percent of their existing cost responsibility.

Under these same conditions truck-trailer combinations weighing more than 70,000 pounds would be paying only 65 percent of their cost responsibilities. Owners of light trucks, vans, and combinations weighing less than 70,000 pounds would be paying 125 to 200 percent of their cost responsibility.

Any change in only the fuel tax element of the mix of taxes making up the highway trust fund will place a heavier burden on light vehicle owners, who currently pay over 85 percent of all fuel taxes. According to the findings of the cost allocation study, any fuel tax increase of more than 3.5 cents per gallon for a $12 billion program would result in an excessive burden on light vehicle owners. This conclusion is based upon the study findings of appropriate fuel tax charges of 0.6 cents per gallon per $1 billion of program level, under the various options outlined on page VI-26 of the study.

Since 100 percent of the new revenues raised by the proposal before you are to be from increases in the fuel tax the net effect will be to shift the major share of the tax burden to owners of light vehicles. We believe this is wrong. It will, to a large extent, negate some 3 years of study effort and millions of dollars of user fees invested in an effort to answer questions raised by this committee in 1978 pertaining to the equitable sharing of cost responsibilities between classes of highway users.

Mr. Russo. Mr. Brady, as I understand, other parts of the bill——

Mr. Brady. I can't hear you, sir.

Mr. Russo. From what I understand, the Department of Transportation based on the conclusions of their study, would significantly raise the user fee on those modes of travel that have a tremendous impact on the highway. For example, heavier trucks.

Mr. BRADY. That is correct, but what is actually, in fact, happening is that all of the new money is raised from fuel taxes. All of the new money. We pay—light vehicle owners pay 85 percent of that. In the generic group identified as trucks versus the generic group identified as passenger cars, there is a great shifting around of who pays the total sum of taxes in order to lower the excessive fees that are being paid by the light and medium weight trucks.

As I said, they are paying 125 to 200 percent of their cost responsibility. So the main thrust of the legislation before you is to make that shift in that generic group of trucks. And in doing so, all of the new revenue is coming from fuel taxes.

Mr. RUSSO. Thank you.

Arthur Irwin, chairman of the American Truck Dealers Division.

STATEMENTS OF FRANK McCARTHY, EXECUTIVE VICE PRESIDENT, NATIONAL AUTOMOBILE DEALERS ASSOCIATION, AND ARTHUR IRWIN, CHAIRMAN, AMERICAN TRUCK DEALERS DIVISION

Mr. McCARTHY. I am Frank McCarthy, with Mr. Irwin. I am the executive vice president of the National Automobile Dealers Association.

On the subject of the overall highway bill, we would like to support and associate ourselves with the views of the Highway Users Federation that will follow us. Most importantly, we are here today to discuss with you a specific matter relating to truck excise taxes in hopes the committee will give serious consideration during the deliberation of the highway bill. We request our full statement be included in the record, if that meets your approval.

Mr. RUSSO. Without objection, so ordered.

Mr. McCARTHY. I would like to ask Mr. Irwin to highlight the specific reasons and specific problems we have with the excise tax on heavy-duty trucks.

Mr. IRWIN. Mr. Chairman, I am Arthur Irwin. ATD strongly urges the prompt completion of the Interstate Highway System and the timely maintenance and modernization of existing Federal roads and bridges. ATD supports the principles of deriving highway revenues in a manner closely related to highway use.

In this regard we are in general agreement with the idea that heavy trucks should pay more and a greater share of highway taxes. However, the special truck taxes proposed by the administration in this highway bill are excessive.

With the proposed levels for their special truck taxes, many trucking companies will have tremendous increases in their tax liabilities. These increases will be a severe burden to an industry that is already in its worst condition in many years.

While we were happy to see that the administration at least partly followed the advice of the Department of Transportation Cost Allocation Study on excise taxes, we were disappointed that the principle was not extended fully. Even though the proposal repeals excise taxes on medium duty trucks and truck parts, we feel that total repeal of all excise taxes should be considered.

Our position is that all excise taxes on trucks and truck parts create inequities and unintended burden and are not suitable or practical as user fees. The reasons for this position are:

One, the excise tax on vehicles does not pay for any specific or measured amount of use. To the contrary, it is not at all related to use and trucks that are used to a very limited degree on interstate highways—logging, mining, agriculture—pay as many dollars in tax as trucks that are used constantly in transcontinental service.

Two, a primary objection to the excise tax from our viewpoint is that it has been the only component of the highway trust fund that is based on value. As a consequence, the excise tax has escalated constantly with the price of trucks, while all other forms of highway taxes have either remained constant or, in the case of fuel tax, tended to be reduced as a result of more efficient truck engines and drive train components. The result has been the placing of an increasingly disproportionate burden on the selling price of new vehicles.

Three, a related inequity results when purchasers in certain taxing jurisdictions are required to pay 7 percent or more sales, or use-tax on the 10 percent excise tax, while other areas have no sales tax or specifically exempt excise tax from sales tax computation.

The resulting difference of as much as $400 or $500 on a heavy-duty truck cannot be viewed as a user tax, because the penalty imposed on the less fortunate buyer gives him no more access to the highways than the "luckier" user who pays his State taxes in some other form.

Four, the very nature of the FET on vehicles imposes a penalty on investment in new equipment—a disadvantage that now, more than at any other time, should be eliminated.

Five, from the standpoint of the truck dealer, the most frustrating and unfair feature of the excise tax is that it is collected in advance from the dealer. At the same time our Government is providing low interest loans for disaster victims, the truck dealers, who are victims of an economic disaster themselves, are in effect making interest-free loans to the Government as a result of their prepayment of FET.

Six, prepayment of the FET by the dealer inflates the value of his inventory. A typical dealer pays interest on his inventory loans at a rate of at least 1 or 2 percent above the prime rate, and incurs additional expenses in the form of inventory taxes and insurance on his parts and vehicle inventories. The additional expense of carrying the tax on inventory can amount to as much as $100,000 a year or more to a large truck dealership.

Seven, another troublesome inequity results from the current treatment of "further manufacture," a term applied to changes made to a vehicle by a dealer after it leaves the factory. Even though the "manufacturer's" tax is collected at the factory level based on the factory selling price to the dealer, additional tax is sometimes due when further manufacture is involved. The interpretation of this complicated area of tax law vary greatly, creating confusion and unfairness. Repealing the taxes would eliminate this problem.

Our position that any vehicle taxes that remain should be collected at retail is based on the following:

First, the truck dealer must pay the tax in advance and finance it. At the same time our Government is paying low interest loans for disaster victims, the truck dealers who are victims of a disaster themselves are making interest-free loans to the Government as a result of their prepayment of the Federal excise tax.

The dealer must pay sales and inventory taxes on the value of the vehicle tax. This is unfair, double taxation. Collecting the tax at retail would eliminate the confusion of inequities resulting from the application of further manufacturing taxes.

Let me brfiefly explain just what happens when you change the point of collection. The franchise truck dealer is the wholesale buyer. Federal excise tax is a part of the truck invoice. The average tractor values today range from $60,000 to $80,000 a copy, the FET is $6,000 or $7,000 on each vehicle, and as a result, additional cost in interest, insurance and inventory tax are additional burden to the dealer.

If we shift the collection to retail, it is collected and paid at that point. The dealer is relieved of the cost involved in carrying the FET as part of his inventory and the tax is preserved.

That concludes my comments.

[The prepared statement follows:]

Statement of Arthur T. Irwin, Chairman, American Truck Dealers Division, National Automobile Dealers Association

Mr. Chairman and members of the committee, my name is Arthur T. Irwin, and I am speaking as Chairman of the American Truck Dealers (ATD). ATD is a division of the National Automobile Dealers Association, which represents over 18,000 franchised car and truck dealers nationwide.

ATD strongly urges the prompt completion of the interstate highway system, and the timely maintenance and modernization of existing federal roads and bridges. ATD supports the principles of deriving highway revenues in a manner closely related to highway use. In this regard we are in general agreement with the idea that heavy trucks should pay more and a greater share of highway taxes. However, the special truck taxes proposed by the administration in this highway bill are excessive.

With the proposed levels for their special truck taxes, many trucking companies will have tremendous increases in their tax liabilities. These increases will be a severe burden to an industry that is already in its worst condition in many years.

While we were happy to see that the administration at least partly followed the advice of the Department of Transportation Cost Allocation Study on excise taxes, we were disappointed that the principle was not extended fully. Even though the proposal repeals excise taxes on medium duty trucks and truck parts, we feel that total repeal of all excise taxes should be considered.

Our position is that all excise taxes on trucks and truck parts create inequities and unintended burden and are not suitable or practical as user fees. The reasons for this position are:

1. The excise tax on vehicles does not pay for any specific or measured amount of use. To the contrary, it is not at all related to use and trucks that are used to a very limited degree on interstate highways (logging, mining, agriculture) pay as many dollars in tax as trucks that are used constantly in transcontinental service.

2. A primary objection to the excise tax from our viewpoint is that it has been the only component of the highway trust fund that is based on value. As a consequence, the excise tax has escalated constantly with the price of trucks, while all other forms of highway taxes have either remained constant or, in the case of fuel tax, tended to be reduced as a result of more efficient truck engines and drivetrain components. The result has been the placing of an increasingly disproportionate burden on the selling price of new vehicles.

3. A related inequity results when purchasers in certain taxing jurisdictions are required to pay seven per cent or more sales, or use tax on the ten per cent excise

tax, while other areas have no sales tax or specifically exempt excise tax from sales tax computation. The resulting difference of as much as $400 or $500 on a heavy duty truck cannot be viewed as a user tax, because the penalty imposed on the less fortunate buyer gives him no more access to the highways than the "luckier" user who pays his state taxes in some other form.

4. The very nature of the FET on vehicles imposes a penalty on investment in new equipment—a disadvantage that now, more than at any other time, should be eliminated.

5. From the standpoint of the truck dealer the most frustrating and unfair feature of the excise tax is that it is collected in advance from the dealer. At the same time our government is providing low-interest loans for disaster victims, the truck dealers, who are victims of an economic disaster themselves, are in effect making interest-free loans to the government as a result of their prepayment of FET.

6. Prepayment of the FET by the dealer inflates the value of his inventory. A typical dealer pays interest on his inventory loans at a rate of at least one or two per cent above the prime rate and, incurs additional expenses in the form of inventory taxes and insurance on his parts and vehicle inventories. The additional expense of carrying the tax on inventory can amount to as much as $100,000 a year or more to a large truck dealership.

7. Another troublesome inequity results from the current treatment of "further manufacture", a term applied to changes made to a vehicle by a dealer after it leaves the factory. Even though the "manufacturer's" tax is collected at the factory level based on the factory selling price to the dealer, additional tax is sometimes due when further manufacture is involved. The interpretation of this complicated area of tax law vary greatly, creating confusion and unfairness. Repealing the taxes would eliminate this problem.

NET EFFECT

All of the above factors combine to inhibit the purchase of new trucking equipment. With truck sales currently running at a level just half of what they were in 1979, this subject is obviously of interest to us as truck dealers. There are, however, other considerations that involve the public interest as well as our own. Other groups and individuals would also benefit from stimulated truck sales, and replacement of older vehicles with new trucks built with more fuel-efficient engines, improved braking and safety features and built in compliance with current noise and emission standards, would obviously be of benefit to the general public. A faster replacement rate would tend to keep the evolution toward modern equipment standards at a pace closer to that anticipated when new regulations were put into place. The greatest stimulant Congress could provide for new truck sales would be to eliminate excise tax and thereby remove the heavy cost now "loaded" into the initial purchase price.

Our association has endorsed a bill that changes the point of collection of the FET. This bill adhered to only three of the issues. In the context of a major restructuring of taxes on heavy trucks, however, we request that Congress solve all eight problems. Changing the point of collection is an appropriate issue to address only if Congress decides to do nothing about the allocation of taxes among highway users.

Members of the committee, for all of these reasons I urge you to consider the repeal of all excise taxes on truck equipment and parts.

Mr. JACOBS [presiding]. Mr. Koltnow.

STATEMENT OF PETER G. KOLTNOW, PRESIDENT, HIGHWAY USERS FEDERATION FOR MOBILITY AND SAFETY

Mr. KOLTNOW. I would like to submit my written testimony.

Mr. JACOBS. What is your organization, apart from its name?

Mr. KOLTNOW. The Highway Users Federation is made up of about 450 industries, associations, and companies who are either the primary producers of products and services for highway transportation or the chief users of highway transportation. These include agricultural industries, the trucking industries, many shippers, manufacturers of vehicles, oil, rubber, et cetera.

Mr. JACOBS. Some building contractors as well?

Mr. KOLTNOW. No. We do not represent the contractors. There are a few materials suppliers in our membership.

Mr. JACOBS. Whenever I see "mobility and safety," I assume to make it alliterative it would have to be "mobility, safety, and money," to some extent.

Mr. KOLTNOW. Mr. Chairman, the members of the Highway Users Federation are the chief payers of highway user taxes. To that extent, money ought to be in that title too, perhaps.

Mr. JACOBS. I am glad you made the suggestion. I probably won't get credit.

Mr. KOLTNOW. Let me assure you the highway user community supports and has worked for a Federal aid highway program and have worked hard at the State level too.

We see an expanded program necessary now not as a jobs bill but on its merits alone. A larger Federal aid highway program would be needed if there were not an unemployment problem. A vigorous economy requires a vigorous highway program.

The size and nature of the Federal program that is required will mean almost a doubling of investment in current dollars to about $16 billion in Federal aid funds by about 1986. You have heard that number before. We believe the Federal investment ought to be concentrated on the major systems of the country, the Interstate System and its upkeep, the primary system, and the bridges on the Federal-aid system.

I would also like to mention the administration's bill does a good job of meeting the needs on the interstate and particularly for interstate reconstruction, does a good job on the primary, may be somewhat low in terms of investment for bridges.

Highway users accept the fact that a beefed-up highway program will require increases in new highway user revenues that will aggregate about $12 billion by 1986. It will also require a substantial drawdown of the current excessive balance in the highway trust fund. We would like to see that drawdown come first while new taxes are phased in. This sort of thing has been done this year in Arizona and Ohio, as you heard earlier today.

Highway user support for increased user fees is based on the dedication of those revenues and payments for highway purposes. Dedicated highway user fees have been the cornerstone of the Federal aid highway program for the last 25 years. About 45 of the 50 States protect their highway user revenues with some form of dedication laws or constitutional amendments. Diversion of highway user revenues to nonhighway purposes, as has been stated here a few minutes ago, violates the basic principle of user charges.

If you treat highway user fees as a general tax, they become a very high tax indeed. Motor fuels are currently taxed at 14 cents if you add the Federal and average State rate, which makes it a very high general tax. It is acceptable as a user tax; I don't think so much as a general tax rate.

We hope this committee will preserve the principle of dedicated user funds in any recodification of the highway trust fund. We hope you will provide for a long-term extension of the highway trust fund as well. You have a very complex program to deal with here in the time remaining before this session adjourns.

We hope if you cannot take care of the whole long-term highway problem, that you will at least pass legislation that will take care of short-term authorizations and keep the highway program going at current program levels until final legislation can take place next year, if that should be the case.

[The prepared statement follows:]

STATEMENT OF THE HIGHWAY USERS FEDERATION, PETER G. KOLTNOW, PRESIDENT

Mr. Chairman, I am Peter G. Koltnow, President of the Highway Users Federation.

The Nation's highway users have worked long and hard for a major increase in the Federal-aid highway program and in the user fees to pay for it.

We welcome the bipartisan interest in rebuilding our highways and commend this committee for its timely effort to get on with the job.

The Federation represents the industries which both supply highway transportation products and are the chief users of highways. They are also the payers of the highway use charges which build and maintain our road systems.

Highway users generally support the proposals which Congress and the Administration have developed during this session for a stepped-up Federal-aid program to improve our highways. We test these proposals against three basic principles:

First, the Federal-aid program must be limited to roads of national importance, and adequate to meet defined goals for making those roads better and safer.

In our judgment, the Federal-aid highway program now authorized at about $8 billion should be increased to about $16 billion by 1986 in order to fulfill reasonable Federal responsibilities for highway improvement.

These levels of income and expenditure could meet these specific goals: completion of the interstate by 1991; improvement of the primary system to upgrade traffic service and safety; replacement or rehabilitation of all deficient bridges on the Federal-aid system within 10 years; modest investment in the Federal-aid secondary and urban systems; a continuing Federal contribution to the Nation's highway safety effort; and accommodation and encouragement of highway use by car and van pools and buses which can make a most efficient use of public space.

The first step in funding this program is to spend down the current balance in the highway trust fund over a two or three year period to a prudent cash flow level of about $3 billion.

As this is accomplished, increased highway use fees—legislated now—could be phased in to provide for orderly growth of highway investment.

The attached table, which we presented in testimony earlier this year, shows one pattern of phased increases which could pick up as the current highway trust fund balance is brought down to a reasonable level and the program accelerates at a manageable pace.

Second, the program must be administered efficiently to direct funds to cost effective, long-range solutions of national needs. This requires stable funding and programming. These are provided by the highway trust fund and Federal-aid procedures evolved over many years. This structure should be preserved.

We urge that the tax structure and the trust fund mechanism be given a considerable life (10 years or more) so that they can fully provide their proven long-term stability, as well at their pay-as-you-go and automatic fiscal control features.

Third, the program must be based on equitable financing through dedicated user charges that reflect user benefits. In paying the higher charges which we and others have suggested, we ask that the funds be put fully and promptly to work.

Money collected from special levies on highway users and applied to non-highway purposes, however laudable those purposes, are not user fees. They are taxes! To call them otherwise is to misuse that term.

As a tax, the proposed added five cents per gallon on motor fuel would fall on a product already burdened by state and Federal levies averaging well over 10 percent of retail value.

We urge you to retain the highway trust fund and user-fee dedication principles and to seek other means to meet other legitimate needs of government. Highway users face a sufficiently gigantic task meeting acknowledged financial needs of our crumbling highway system.

We do not deny the social and transportation benefits of other travel modes, specifically rail transit. However, highway users are not special beneficiaries of subways. New rail transit systems have generated most patronage from former bus users with little real congestion, pollution or energy saving benefits.

The effect of BART on auto trips crossing San Francisco Bay, for example, was equivalent to about 1 year's normal traffic growth. BART may have benefited San Francisco as a whole but its effect on area motorists was inconsequential. Similarly, in other cities with rail transit systems, the benefits are localized and often very small compared to overall metropolitan area transportation activity. As a matter of fact, transit commuting declined over 10 percent in the last decade despite massive Federal expenditures. Highway users should not be singled out to bear the frequently exorbitant costs of these few localized benefits.

Adoption of a long-term highway and highway finance program must be given top priority by this Congress. It will contribute to higher national productivity in the long term and to a needed economic boost in the short. We commend this Committee's efforts to resolve the many important open questions in the few days available. Should that not be possible, we urge you to take the minimum steps necessary to keep the nation's highway program functioning at its present level, until Congress can reach a decision in the next session.

HIGHWAY TRUST FUND CASH FLOW

[In billions of dollars]

	Fiscal year				
	1982	1983	1984	1985	1986
Balance—start	9.2	8.5	7.3	5.9	4.6
Revenues from current sources	[1] 6.2	6.5	6.5	6.5	6.5
Revenues from new sources			2.0	4.0	6.0
Interest	[1] 1.8	1.0	.7	.6	.6
Outlays [2]	(8.7)	(8.7)	(10.6)	(13.4)	(14.6)
Balance—end	8.5	7.3	5.9	4.6	3.1

[1] Estimate based on income through February 1982.

[2] Assumes the obligation limit for each fiscal year is not less than the authorized level of funding.

Mr. JACOBS. Thank you.

Any questions?

Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman.

I would like to ask the gentleman, Mr. Irwin, about the question that was raised by the chap from the American Trucking Association with respect to truck parts. The proposal, as it comes to us, provides for a differential in taxation on truck parts for vehicles over 33,000 pounds.

Is it possible to make such a distinction?

Mr. IRWIN. It is going to be extremely difficult, Congressman, because of the overlap through standardization of parts between models. It is conceivable—well, it is—in practicality you have common engines from a vehicle that might be a 28,000 gross weight to one that might be 81,000.

You have sheet metal cab type configurations used on many models. In one case they would be below the minimum; in the other case, they would be above.

When those components are being ordered by the dealer from the manufacturer, how is the manufacturer to determine at that point just what kind of a vehicle they are going to go on?

I really see a lot of problems in policing that.

As a result, we recommend that the excise tax on all truck parts be repealed.

Mr. McCARTHY. I am Frank McCarthy. Mr. Chapoton stated that the exemption would exempt 96 percent of the parts. It seems to us the easiest way to remove the confusion and simplify it is simply to exempt 100 percent of the parts.

Mr. **Frenzel**. Explain the exemption to me, would you?

Mr. **McCarthy**. That simply states those parts that are to be used for vehicles 33,000 pounds gross vehicle weight or less would be exempt. Those that are to be used on the heavier ones are not exempt. He stated that under the proposal, only 4 percent of the parts would be covered. It would be a lot simpler to exempt them all.

Mr. **Frenzel**. How do you get a 97-percent exemption?

Mr. **McCarthy**. That was his figure. I don't know how he got it.

Mr. **Frenzel**. I think he would have to cheat a little, don't you?

Mr. **McCarthy**. It is pretty confusing as to what the dividing line is. As Mr. Irwin says, that is pretty good.

Mr. **Irwin**. He was probably using unit sales or the number of trucks rather than the number of calls for a given part.

Mr. **Frenzel**. I guess I would have to talk to the Department.

I wonder why they would set a 55,000-pound break point for heavy vehicle use tax and a 33,000-pound break on parts?

Did any of you discuss this with the Department?

Mr. **Irwin**. No; but I can answer your question to this extent: When they are talking about 33,000 GVW, they are talking about a rating on a vehicle whether it is a straight truck application carrying a body or a tractor to pull a trailer.

When they get into the 55,000, up to 70,000 and 80,000 they are referring to gross combination weight, which is then a tractor-trailer combination with payload.

Mr. **Frenzel**. I guess I will have to look at the legislative language. The material I have does not show the distinction. I thank you for the explanation.

Mr. Chairman, I yield the balance of my time.

Mr. **Jacobs**. Thank you, Mr. Frenzel.

I wonder if any of the members of the panel would state for the record when you first learned of the taxes in addition to the 5-cent gasoline users fee tax?

Mr. **Koltnow**. This was commonly brought about a year ago.

Mr. **Brady**. It was set up over a year ago, but it was always expressed as the equivalent of a 5-cent fuel tax which to us, motorists' representatives, meant you in effect were going by cost allocation study findings for a total take of about $5.5 billion, which would be spread throughout the whole mix.

I would like to make this point——

Mr. **Jacobs**. I am well aware of that. That is the reason I framed the question as I did. When did you first learn this would be in addition——

Mr. **Brady**. This was in the initial Drew Lewis proposal last year.

Mr. **Jacobs**. When did you first learn the administration at this time, in this bill, would frame the bill as it is?

Mr. **McCarthy**. We learned this less than 2 to 3 weeks ago.

Mr. **Jacobs**. OK.

Mr. **Brady**. We did not get the bill until 11 o'clock yesterday morning.

Mr. **Jacobs**. I appreciate that. I asked when you first learned it would be proposed by the administration.

Mr. **Doyen**. Mr. Chairman, our organization got the facts on Monday of this week.

Mr. **Jacobs**. Do you not talk to each other?

Mr. **Doyen**. Pardon?

Mr. **Jacobs**. Fine.

The committee expresses its gratitude to the participants on the panel for their contribution to the proceedings. You are excused.

The committee announces that of necessity there must be a slight change of the agenda. We will call next as a witness Hon. James Howard, chairman of the Committee on Public Works and Transportation. I believe Congressman Howard is present and will be present in the new Congress.

The committee is also honored to have as its guest the ranking minority member, Congressman Don Clausen of California.

Mr. Chairman, Mr. Ranking Member, you are welcome. You may proceed in your own manner. In your cases, you can even read your prepared statements without handing them in, if you want to.

STATEMENT OF HON. JAMES J. HOWARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, CHAIRMAN, COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. **Howard**. Thank you, Mr. Chairman. I am accompanied by our fine leader on the minority side, the gentleman from California, Mr. Clausen. I do have a statement. I would ask it be made part of the record. It is a brief statement, Mr. Chairman. I think we can take a great deal of satisfaction in the fact that prospects for a revenue increase for surface transportation make it realistic to come before you to discuss a program along the lines of the one in our bill, H.R. 6211.

In May of this year, our committee reported out H.R. 6211, a 4-year bill combining authorizations for highways, highway safety, and public transportation. It contained authorization levels consistent with those advocated by Secretary Lewis as part of his proposal to increase revenues in amounts equivalent to a 5-cent increase in the motor fuels tax.

The President's decision to defer a decision on the issue during the regular session made it necessary for us to adopt H.R. 6965, a 1-year, scaled-down version, which the trust fund could sustain if extended a corresponding 1 year at existing revenue levels. It later became necessary to move an interim bill which passed on the last day of the regular session, and as a result, H.R. 6211 and H.R. 6965 are still pending.

The President and the leadership of both Houses have now endorsed a revenue increase in the amount contemplated in H.R. 6211, and it is the task of our respective committees to perfect authorizing and revenue legislation.

What we propose to take to the floor is a substitute for H.R. 6211, containing the following: the bulk of the provisions of that bill, some provisions of H.R. 6965, a number of technical amendments, and several provisions which have surfaced more recently and whose inclusion will expedite consideration on the floor. The whole package is before you: legislative language, a summary authorization and authorization tables. I therefore will confine my direct testimony to the highlights.

The highway title authorizes in excess of $12 billion a year from the highway trust fund, up from the range of $8.5 billion in fiscal year 1982. Principal areas of expansion are interstate completion, interstate 4–R, the primary system, and replacement and rehabilitation of bridges. To expedite completion of the Interstate System, we expand the discretionary fund by $300 million and target it to completion at high-cost gaps. For interstate reconstruction, we also permit States to transfer a limited amount of their own construction apportionments to 4–R work, provided they scale down the scope of their total system requirements. The bill also modifies the apportionment formula for 4–R to give greater weight to factors reflecting greater wear and tear on the system. Also modified are the primary system formula, to give greater weight to urban population, and the bridge formula, on the basis of updated needs estimates.

Interstate transfer substitute projects would be funded by the highway trust fund, with most of the funds apportioned on the basis of cost to complete and the remainder at the discretion of the Secretary. We also would eliminate separate funding for a number of categories authorized in existing law, but allow States which wish to continue funding them to do so from regular apportionments at a preferential Federal matching share.

The substitute also contains truck size and weight provisions, as did H.R. 6211, but with a triggering mechanism specifying that the modifications shall not take effect unless and until an equitable cost allocation adjustment is enacted into law. That, of course, would be under the province of your committee, Mr. Chairman.

On the transit side, we increase overall program levels from $3.5 billion to $4.15 billion a year. We also assume earmarking of the equivalent of a 1-cent increase in the fuels tax for public transportation capital. This would go out as contract authority, backed up by a public transportation trust fund, a separate account in the highway trust fund, or whatever mechanism this committee should choose.

The program would be restructured, with a greater proportion going out by formula and less at secretarial discretion. Capital would go for the traditional public transportation purposes, including a limited number of cost-effective new starts. We also would restructure the apportionment formula, giving greater emphasis to existing levels of service. Great care has been taken to assure equitable treatment of cities of under 200,000 and areas of under 50,000 population. Operating assistance would be capped at fiscal year 1982 levels. We also provide an incentive, in the form of a higher Federal match, for communities which use for capital purposes those funds made available for either capital or operating assistance. We also provide more flexibility in procurement procedures and incentives to seek greater operating efficiency and economies, and we strengthen the Buy America provisions of existing law.

We feel that our proposed authorizations are more than warranted by the various studies documenting needs in the area of surface transportation. The Department of Transportation projects annual highway spending needs ranging from $11.6 billion just to maintain

1978 conditions to $16.6 to meet full needs. Transit needs, just to maintain existing systems and not taking any expansions into account, will total nearly $50 billion over the next 10 years.

And last but not least, the jobs picture today makes prompt action even more imperative. The administration estimates that this program would create 320,000 jobs per year, including 170,000 directly related to the construction industry, which is hit by unemployment roughly twice the national average.

We appreciate this opportunity to testify, and would be pleased to try to answer any questions you may have.

I believe Mr. Clausen may have a statement.

STATEMENT OF HON. DON H. CLAUSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, RANKING MINORITY MEMBER, COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. **Clausen**. Thank you, Mr. Chairman.

At the outset, I would like to ask unanimous consent that I be permitted to submit for the record a statement of Mr. Shuster, the ranking minority member on the Surface Transportation Subcommittee. Also, I have as an addendum to my own testimony a paper relating to the major financial changes in the highway trust fund since 1956, which is a working paper of the Congressional Budget Office, that I would like placed in the record.

Mr. **Jacobs**. Without objection, it is accepted gratefully.

Mr. **Clausen**. Mr. Chairman, members of the committee, rather than duplicate any of the testimony and other material that you have received on our legislative package, I would like to share with you a few thoughts that I will be keeping in mind as we move toward enactment of the highway and this revenue legislation.

Point 1 is—and I am sure that is generally accepted—that the highway trust fund simply has got to be the best bargain the taxpayer ever got from the Federal Government. It is fair. It is efficient. It is superbly suited to the program it finances. It does not add to the deficit. And the user pays in proportion to the amount they utilize the highway system network. Wherever I go there is a general tendency on the part of the public over the years to say I do not mind paying taxes as long as I see I am getting something for the money. In the case of the funding mechanism we utilize to finance our basic highway needs, as well as the airport-airway system on the basis of the trust fund concept, I think it, in fact, has withstood the test of time. It has made it possible for us to achieve a highway system that is literally the envy of the world. I am saying this on the basis of having participated in some of the international forums where I utilize the trends in this country with regard to the authorization of the interstate defense highway network and what it has contributed to the economic growth and the social enhancement of this society. Without the trust fund, I do not think that it would be possible to make that kind of a statement today. It is a tribute to the partnership between our two committees as it has existed since 1956.

Point 2 is that we now have the best chance in a generation to restore in substantial part the purchasing power of the trust fund that has been eroded by inflation, factors that increase costs beyond the rate of inflation, and of course lagging revenues. The administration, the leadership in both Houses, and the authorizing and tax committees appear to be essentially of one mind. Public awareness of the needs, essential to our success, is there.

Point 3 is that time is short and many side issues remain to be resolved before a total package can be enacted into law. These include cost allocation in the trucking industry, operating assistance for public transit, and the appropriate mechanism for handling the 1 cent proposed for public transit capital.

We have come a long way in just over 6 months since the Public Works Committee reported out a bill containing authorizations to fit in with a revenue increase along the lines of what you are considering today. But the outstanding issues mean that we still have considerable distance to go. In the short time remaining this will take an unusual degree of willingness to cooperate and, if need be, compromise differences in the higher interest of a substantial increase in funding for highways and transit. I am prepared to make that effort, and earnestly hope that all concerned—here on the Hill and downtown—are similarly inclined. And I have to say that Secretary of Transportation Drew Lewis has been doing an absolutely magnificent job on this; for that reason alone we should be as accommodating as possible.

Before concluding, I want to call to the attention of the committee—assuming it has not already been done—to a paper issued earlier this week by the Congressional Budget Office, entitled "Major Financial Changes in the Highway Trust Fund since 1956." I ask that it be appended to my testimony for the record. This paper documents the manner in which, after some early startup problems, the trust fund has functioned well over the past 20 years. The Byrd amendment, its antideficit mechanism, has done its job. There has been no deficit regardless of the size of the balance in the trust fund. It explains how the fund has operated when it has been extended 1, 2, and 3 years beyond the expiration of authorizations in existing law. More significantly, it analyzes H.R. 6211 and its trust fund implications, making clear that our bill is sound both in terms of the balance and the number of future years of revenue required.

Mr. Chairman, this is my last appearance before this committee as a Representative from the First Congressional District of California. I want to tell you how much I have appreciated the kind of cooperation, coordination that I have enjoyed with you individually and collectively as the Ways and Means Committee over the years. I have seen a lot of legislation come and go. If we can negotiate the agreements necessary to make this revenue increase for the trust fund and for transit a reality—along with the appropriate authorizing legislation—I can truly say that I will take greater satisfaction in that than in any other accomplishment I have been associated with in nearly 20 years in the House.

A lot of people talk about jobs. A lot of people talk about the building of the economy and incorporating our efforts into the economic recovery. I know of nothing more than a solid commitment to our transportation system development in this country that will do more to get the economy moving again.

So, to this end, our objective is to come up with the right kind of funding mechanism that will improve our ability to move people, goods, and services, because that is what the economic development is all about. To that end, I once again want to thank you very much for this privilege of having been able to work with you over the years.

Mr. JACOBS. We thank the gentleman for his statement.

[An attachment to the prepared statement follows:]

MAJOR FINANCIAL CHANGES IN THE HIGHWAY TRUST FUND SINCE 1956

PREFACE

During the Special Session that starts November 29, the Congress is likely to consider an extension of the Highway Trust Fund beyond its current expiration date of September 30, 1984. Such an extension is necessary if the highway program is to be authorized for the full year. Currently, the Byrd Amendment restricts the level of authorizations.

This Staff Working Paper was prepared at the request of the House Committee on Public Works and Transportation. It is designed to provide a historical perspective on the past changes in the financial condition of the Highway Trust Fund. In particular it describes the various means by which the Congress determines the level of spending from the Highway Trust Fund. In keeping with CBO's mandate to provide objective analysis of issues before the Congress, this report offers no recommendations.

The author of this paper is Richard R. Mudge. It was prepared in CBO's Natural Resources and Commerce Division under the supervision of Damian J. Kulash and David L. Bodde. Valuable comments were received from Patrick J. McCann of CBO's Budget Analysis Division, from Clyde Woodle, Jeff O'Neal, and Kenneth House of the House Committee on Public Works and Transportation, and from Pam Pecarich of the House Committee on Ways and Means.

SUMMARY

The Highway Trust Fund was established in 1956 as the means of financing the new Interstate Highway System as well as other federal highway programs. It receives revenues from a series of taxes on highway users, most importantly a four-cents-per-gallon tax on motor fuel and several taxes on trucks.

Most federal programs pass through four stages: authorization, appropriation, obligation, and outlay, with budget authority not created until the appropriation process. By contrast, the Highway Trust Fund continues the practice started in the early 1920s of creating budget authority (termed contract authority) at the authorization stage. Thus funds are made available to the states for obligation without first being appropriated. The appropriations committees provide liquidating appropriations just prior to the outlay of funds.

The Highway Trust Fund has passed through two stages in its financial history and appears recently to have entered a third. In its first decade, the fund was characterized by a very low cash balance—on average less than $500 million. During the first few years, the Congress added revenues to the fund by increasing highway taxes and was forced to defer temporarily application of the Byrd Amendment. During the late 1960s, a second stage began that saw the cash balance grow to a total of $12.6 billion by the end of 1979. Steady growth in highway use during the 1960s and early 1970s helped to increase revenues, while a series of Presidential impoundments of highway funds held down outlays. Also important was the fact that starting in 1973, the Highway Trust Fund extended for only one year beyond the last year of full highway authorization. (Such an overhang is feasible since there is normally a two- to three-year delay between the authorization of funds and their cash outlay.) This relatively short overhang reduced the amount of funds that could be authorized, so that outlays were lower than they otherwise might have been.

Since 1978, a third stage appears to have started. The cash balance in the fund has dropped (by $3.5 billion), and appears likely to continue to decline for the next few years. There appear to have been two causes for this change: first, a much slower growth in tax receipts as higher fuel prices encouraged more conservation; and, second, the extension of the Highway Trust Fund to 1984, two years beyond the last year of full authorization. This additional year of revenues permitted somewhat higher authorizations.

There are several limits on the amount of contract authority that can be created in the authorization process. Most important, the financing committees determine the funds available by fixing the level of taxes paid into the trust fund and by setting the number of years for which taxes are to be collected. A second major constraint is provided by the Byrd Amendment—a part of the act that established the Highway Trust Fund in 1956. This requires the Secretary of the Treasury to determine if there will be sufficient funds available to cover expected outlays during the next year and over the remaining life of the trust fund. If there will not be enough cash (including both cash on hand at the start of the year and revenues to be received) the amount of authorizations made available to the states at the start of the fiscal year will be restricted to ensure that adequate cash is available.

This paper contains five sections: a description of the process by which the federal highway program is financed; a survey of major changes in the financial condition of the Highway Trust Fund since 1956; a brief discussion of some of the factors causing these changes; a description of the mechanisms currently used by the Congress to control the level of spending from the trust fund; and finally, a discussion of two highway program options and how they would affect the finances of the Highway Trust Fund.

THE HIGHWAY FINANCING PROCESS

Creation of the Highway Trust Fund.—The financing process for federally aided highways was initiated in the early 1920s, under the Federal Highway Act of 1921 and the Post Office Appropriation Act of 1922. These acts required the Secretary of Treasury to set aside amounts certified to be needed for approved projects by the Secretary of Agriculture (then responsible for highway programs). This meant that funds authorized for highway projects became budget authority without first being appropriated. In addition, this legislation stipulated that projects approved by the Secretary of Agriculture were to be contractual obligations of the federal government. The authority to obligate authorized federal funds, known as contract authority, has thus been a key feature of federal highway programs for more than half a century.

Until 1956, funds for federal highway programs were taken from general revenues. While the federal government had imposed some form of taxes on highway users since 1917, including a fuel tax beginning in 1932, receipts from such taxes were paid directly to the Treasury.[1] There was no formal link between highway tax receipts and federal spending on highways until the establishment of the Highway Trust Fund in 1956. (Before then, however, authorizations appear to have been "geared very largely to the receipt of funds from the gas tax," [2] and the overall balance between federal highway receipts and federal highway expenditures was taken into consideration when either was altered.)

The 1956 Highway Act specifically earmarked receipts from road user taxes for expenditure on highway programs. Beginning July 1, 1956, receipts from various road user taxes were to be placed in the Highway Trust Fund rather than in the general fund of the Treasury, and when cash was needed to pay for highway construction it was to be taken from the Highway Trust Fund. This approach was used both for the already existing highway programs and for the newly planned Interstate system. During the debate over how to finance the latter project, which was expected to require 13 years to complete at an estimated federal cost of $25 billion, the use of long-term bonds was rejected in favor of the more conservative "pay as you build" approach embodied in the Highway Trust Fund.[3]

The 1956 Highway Act called for a trust fund extending for 16 years to 1972, three years beyond the last year of authorizations for the Interstate. The three additional years of revenues were to ensure that there would be a balance between total receipts and expenditures over the life of the program. (See the next section for a description of the normal delays between authorization and outlays.) The tax increases called for in the act were relatively modest, however: only a penny increase in the motor fuel tax to three cents per gallon, for example. As a result, the trust fund as proposed in the original House bill was projected to have a cash deficit for most of the 1960's, peaking at $4.8 billion in 1969. These annual deficits were to be financed over the short term by borrowing from the general fund,[4] and eventually by tax receipts during the three years that the trust fund continued after the Interstate network was expected to be completed. While the trust fund was also to be used to finance non-Interstate programs (the most important at the time being the Primary and Secondary road systems), there was no clear indication of what was to happen to the Highway Trust Fund once the Interstate was completed.

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[1] The 1917 tax was a 3 percent sales tax on new vehicles. In 1932, a 1 cent per gallon tax on gasoline was imposed. Diesel fuel taxes started in 1951.

[2] Congressman Henry B. Scudder, National Highway Program, Hearings before the House Committee on Public Works, 84:1 (1955), p. 34. Also, the Hayden-Cartwright Act of 1934 declared that it was unfair for state governments to tax highway users without using the receipts for highway spending.

[3] Congressional Budget Office, Highway Assistance Programs: A Historical Perspective, Background Paper (February 1978).

The idea of a debit balance in the trust fund was opposed by many Members of the Congress and by the Secretary of the Treasury. As a result, the Senate passed and the House accepted the Byrd Amendment to the original House bill. In addition to prohibiting a defict over the life of the trust fund, this amendment prohibited the fund from going into deficit in any particular year. As stated in the Senate Report, it was "designed to give assurance that no deficit will develop in the highway trust fund." [5] In effect, this would "give assurance of Congressional reconsideration of the highway program at any time in the future that revenues appeared inadequate to meet the highway program presently planned since either new revenues will have to be raised at such a time or the expenditure program will have to be curtailed or postponed." [6] The Byrd Amendment is discussed in detail in a later section of this paper.

Before moving on to the development of the trust fund since 1956, it will be useful to outline how the financing process created in 1956 operates.

Mechanics of the Highway Trust Fund.—Most federal programs pass through four stages: authorization, appropriation, obligation, and outlay. Budget authority is not created until the funds have been appropriated. By contrast, federal funds for highways pass through five steps from the time they are authorized until the time the cash is actually paid from the Highway Trust Fund and budget authority is created in the first step. These steps are: authorization; apportionment; obligation; appropriation; and outlay.

Each step is described briefly below.

Authorization.—The highway financing process begins with the passage of an authorization bill. Since the Highway Trust Fund was created, authorizing legislation has generally been passed about every two years, although the interval has sometimes been longer. Almost all the funds authorized to be spent from the Highway Trust Fund are in the form of contract authority—giving the Secretary of Transportation the authority to enter into contracts that obligate the federal government to pay the amounts authorized. Contract authority permits the highway program to bypass the normal appropriations process, an important element providing long-term security to state highway departments. As noted earlier, contract authority has been part of the federal highway program for over 60 years.

Apportionment.—Contract authority is usually apportioned among the states on the first day of each fiscal year. For most programs, the share going to each state is determined by legislated formulas. For others, the allocation is determined at the discretion of the Federal Highway Administrator. The Byrd Amendment requires that apportionment not take place until the Secretary of the Treasury determines that the Highway Trust Fund will have sufficient covering funds. Otherwise, apportionments must be reduced to the level of funds projected to be available.

Obligation.—Once funds are made available to the states, they may begin to issue contracts for eligible construction activities. They do so secured by a federal commitment to reimburse them for these costs, as long as the projects have been approved by the Federal Highway Administration or as long as a state's program has been certified by the Federal Highway Administration.

Obligation of highway funds generally takes place gradually, in many small steps, over a period of several years. The time when a state may obligate its apportioned funds varies from program to program. Funds for the Interstate program are apportioned one year in advance of the fiscal year, and are available for obligation for two years thereafter. For example, funds for fiscal year 1984 (October 1, 1983–September 30, 1984) were apportioned in October 1982 and can be obligated anytime between October 1982 and the end of September 1984.

For other highway programs, apportioned funds are available for obligation throughout a four-year period. Unlike Interstate apportionments, other highway programs cannot be obligated one year in advance of the fiscal year for which they are authorized. Thus, the fiscal year 1983 apportionment for the Primary system, which was made in October 1982, can be obligated anytime between then and the end of September 1986.

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[4] The trust fund retains its original authority to borrow from the general fund (termed repayable advances), but incorporation of the Byrd Amendment in the 1956 act makes this of little practical effect.

[5] While the Byrd Amendment prohibits a cash deficit at the end of the fiscal year, a deficit during the year is technically permissible.

[6] Senate Report 2054, May 25, 1956, accompanying H.R. 10660.

Because apportioned funds are available for obligation for more than one year, and because they may be available before the year for which they are authorized (as with the Interstate program) or for several years after they are authorized (as with other programs), the timing of obligations does not coincide closely with that of apportionments or authorizations.

On average, only half of each highway dollar is obligated in the same fiscal year for which it is apportioned. Such delays are a key feature of federal highway finance—as well as of most other programs that involve capital construction. The multiyear window during which apportioned funds may be obligated is needed by the states to ensure continuity of large projects and stability of long-run planning.

Except for the Interstate program, funds lapse if they are not obligated by the end of the period for which they are available.[7] Historically, states have not allowed any significant amount of highway funds to lapse.

Appropriation.—Because authorization of programs through the Highway Trust Fund permits the obligation of federal funds, the appropriations process is no longer a meaningful way to control these expenditures. (In recent years, the Congress has placed ceilings on the amount of obligations that can be made in any particular year as a way of delaying the outlay of funds.) Nevertheless, the federal government cannot transfer the cash to reimburse states for the vouchers they submit until funds have been appropriated by the Congress. Such "liquidating appropriations" represent a recognition by the Congress of obligations already made, and do not serve as a control mechanism. Rather, separate controls have been established for this program, as will be discussed later.

Outlay.—Finally, once states have completed projects (or parts of projects) and submitted vouchers for payment, and once the Congress has appropriated cash for the purpose of reimbursing the states for progress payments or for completed work, the federal government transfers funds to the states. This final outlay step typically comes about two-and-one-half years after the start of the year for which funds were authorized. In addition to the delay between apportionment and obligation discussed earlier, part of this long delay between authorizations and outlays stems from the time consumed during the construction process itself, because federal funds are used to reimburse states only for completed work.

MAJOR CHANGES IN THE HIGHWAY TRUST FUND SINCE 1956

Two major changes have taken place in the trust fund over the last 25 years. First, the maximum life of the fund has decreased considerably from sixteen years in 1956 to seven years in 1970, three years in 1976, and six years in 1978. At the same time, the length of the typical highway authorization has increased from two years to four years. Taken together, these two shifts in timing mean that taxes and program authorizations have increasingly been considered simultaneously by the Congress. Such simultaneous consideration makes for a stronger system of checks and balances among the authorizing and tax committees.

Second, the financial characteristics of the fund have changed considerably. During the 1960's and early 1970's, trust fund revenues grew steadily, mostly in response to growing highway use. Also, the Congress placed more tax revenues in the fund, most significantly through a one-penny increase in the motor fuel tax in 1959. Further, the real value of the fund tended to increase as long as inflation remained at relatively low levels. Given the long life of the trust fund in those years, the authorizing committees of the Congress would have had considerable leeway to make revisions in the program without requiring action by the financing committees, had not the low cash balance in the fund during those years restricted this freedom. Now, however, trust fund revenues are growing very slowly and inflation is eroding the funds' purchasing power.[8] This combined with the shorter life of the trust fund, limits the freedom of the authorizing committees as compared to earlier years, even though the cash balance is higher.

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[7] The present two-year period during which Interstate funds can be obligated was created by the 1978 Highway Act, which shortened the period from four years. At the same time, however, the 1978 act provided that funds not used by the states within this two-year period would be deposited in a fund for use by other states that have projects ready to go. Because funds for the Interstate program are apportioned among states in proportion to the cost to complete planned routes within each state, a state that permits Interstate funds to lapse will retain a higher cost to complete, thereby maintaining a higher share of program funds in future years. Thus, any state that permits its Interstate funds to lapse will eventually recover the lapsed funds through increased apportionments, as long as the Interstate program is continued. This is not the case for other highway programs, however, in which lapsed funds are forfeited by the states.

Over its first few years, the 1956 Highway Act called for authorization well in excess of expected receipts. In addition, most of the unpaid authorizations from the pre-1957 highway program were assigned to be Highway Trust Fund for payment. As a result, the Congress suspended the Byrd Amendment (prohibiting deficits) for 1959 and 1960 only two years after it had become law. (See Table 1 for a summary of major highway financing changes since 1956.) A major argument for its suspension was the need to maintain highway spending during an economic recession. During 1960 and 1961, the trust fund exhausted its cash temporarily and was forced to borrow from the Treasury. By the end of 1961, however, the fund had a small, positive cash balance, and has never since shown a negative cash balance.

In 1959, the Congress took stronger action to improve the financial condition of the trust fund. The motor fuels tax was increased from three to four cents per gallon effective in 1960 and half of the 10 percent excise tax on new car sales was ordered to be paid into the trust fund. These changes were temporary, in part because the Congress was waiting for the results of a highway cost allocation study before making permanent tax changes. In order to avoid a projected imposition of the Byrd Amendment, the Congress also reduced the Interstate authorizations for 1961.

This reduction in the Interstate program was not enough, however, and in 1961 the Byrd Amendment took effect for the only time, restricting the apportionment of Interstate funds. (As originally written, the amendment restricted only Interstate funds. Later, in 1978, it was amended to apply equally to all apportioned funds.) In 1961, the Congress also made a number of significant permanent tax changes, including setting the motor fuel tax at four cents per gallon for the life of the trust fund and increasing the taxes on tires, tubes, tread rubber, and heavy vehicles. The truck excise tax was placed in the trust fund but the auto excise tax was removed. These changes increased trust fund revenues by almost 40 percent. The most recent change in trust fund finances occurred in 1965 (effective in 1966), requiring that the existing excise taxes on truck parts and lubricating oil be paid into the Highway Trust Fund instead of the general fund (increasing trust fund revenues by 3 percent). These changes, in particular those made in 1959 and 1961, solved the short-term financial problems of the fund. Steady growth in highway travel and relatively low inflation caused tax receipts to show a positive real growth rate through the early 1970's.

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[8] Although highway construction costs have actually declined in the last two years, this trend is not expected to continue.

TABLE 1. MAJOR CHANGES IN FEDERAL LEGISLATION AFFECTING THE HIGHWAY TRUST FUND

Year	Target Date for Interstate Completion	Last Year of Full Authorization	Highway Trust Fund Expiration Date	Other Finance-Related Changes
1956	1969	1959	1972	HTF established with Byrd Amendment; increased taxes on motor fuel, tires, tread rubber, trucks, trailers, set new tax on heavy vehicles.
1958		1961		Byrd Amendment suspended for 1959 and 1960 to ensure full apportionment of authorizations.
1959				To avoid imposition of Byrd Amendment, Interstate authorizations for 1961 reduced; fuel tax increased to 4 cents, and one-half of auto excise tax paid to HTF--both tax changes were temporary.
1960		1963		
1961	1971			Apportionment restricted for 1961 under Byrd Amendment. Taxes increased on tires, tubes, tread rubber, heavy vehicles. Fuel tax increase made permanent, all of truck excise tax placed in HTF, and auto excise tax removed from HTF.
1962		1965		
1964		1967		

(Continued)

TABLE 1. (Continued)

Year	Target Date for Interstate Completion	Last Year of Full Authorization	Highway Trust Fund Expiration Date	Other Finance-Related Changes
1965				Existing taxes on truck parts and lubricating oil paid into HTF.
1966	1972	1969		
1968	1974	1971		First extension of Interstate authorizations beyond end of HTF.
1970	1976	1973	1977	First extension of HTF. Excise tax on light trucks repealed. [a]
1973	1979	1976		Fiscal year 1974 started without authorizations for non-Interstate programs. Major decrease in Interstate authorizations--from $4 billion to $2.6 billion.
1976	1990	1978	1979	HTF extended.
1978		1982	1984	HTF extended.
1982		1983		Byrd Amendment forces partial authorizations for 1983 as part of stopgap bill.

NOTE: This is by no means a comprehensive list of federal highway legislation since 1956. It includes only those acts that changed the taxes paid into the Highway Trust Fund or which extended authorizations for the Interstate or major non-Interstate programs. Between 1978 and 1982, the Congress passed four other acts that modified the highway program.

a. Part of repeal of auto excise tax, not part of Highway Act.

Throughout the 1960s and 1970s, there were regular reauthorizations of both Interstate and non-Interstate programs (see Table 2). Typically, these were biennual highway bills that provided for two more years of non-Interstate funding. The current pattern appears to be for four-year authorizations as in the original bills proposed by the House and Senate Committees on Public Works in 1982.

Interstate authorizations have been extended beyond the original completion target of 1969 as the costs of the system have grown in response to inflation, changes in design standards, environmental regulations, and the inclusion of new projects in the system. By 1968, the completion date was advanced to 1974 and for the first time extended beyond the planned expiration date for the Highway Trust Fund.

Over the most recent decade, higher fuel prices and greatly improved fuel economy have contributed to holding the trend of tax receipts below the rate of inflation in highway construction.

OVERVIEW OF CHANGES IN HIGHWAY TRUST FUND FINANCE

There are several ways to measure the financial condition of the Highway Trust Fund. The cash balance is by far the most important, since this is the key factor that determines when and if the Byrd Amendment is to be invoked. A related measure is the number of additional years of receipts required to finance authorizations already made (usually called the overhang). Table 3 shows these measures and the information from which they are calculated, on an annual basis since the start of the trust fund. The change in the cash balance is simply tax receipts minus outlays. The number of years of additional revenues (overhang) is calculated by dividing the level of unfunded authorizations [9] by the total trust fund revenues (including interest on the cash balance) expected for the next fiscal year. Unfunded authorizations are simply unpaid authorizations (total authorizations that have been apportioned or allocated less total outlays) minus the cash balance available to pay for them.

Since its start in 1957, the trust fund has passed through two phases: a period of tight financial strain during its first decade of existence characterized by tax increases in 1959 and 1961, and a later period during which outlays have lagged behind revenues and a sizable cash balance has built up in the fund. Recently, the Congress has started to draw down the cash balance. Since 1979, the balance has dropped by $3.6 billion to about $9.0 billion.

TABLE 2.—HIGHWAY TRUST FUND AUTHORIZATIONS, RECEIPTS, OUTLAYS, AND BALANCES

[In millions of dollars]

Fiscal year	Authorizations [1]			Trust fund receipts	Outlays	Cash balance
	Interstate	Non-interstate	Total			
1957	1,000	155	[2] 1,155	1,482	966	516
1958	1,700	880	2,580	2,044	1,511	1,049
1959	2,200	1,305	3,505	2,088	2,613	523
1960	2,500	933	3,433	2,536	2,940	119
1961	1,800	955	2,755	2,799	2,619	299
1962	2,200	958	3,158	2,955	2,784	471
1963	2,400	955	3,355	3,293	3,017	747
1964	2,600	980	3,580	3,540	3,645	641
1965	2,700	1,005	3,705	3,670	4,026	285
1966	2,800	1,030	3,830	3,924	3,965	244
1967	3,000	1,050	4,050	4,455	3,974	725
1968	3,400	1,050	4,450	4,427	4,171	982
1969	3,800	1,050	4,850	4,690	4,151	1,521
1970	4,000	1,575	5,575	5,469	4,378	2,612
1971	4,000	1,653	5,653	5,725	4,685	3,652
1972	4,055	1,917	5,972	5,528	4,690	4,490
1973	4,055	2,064	6,119	5,912	4,811	5,591
1974	2,650	3,016	5,666	6,675	4,599	7,667
1975	3,050	3,546	6,596	6,774	4,844	9,597
1976	3,050	3,964	7,014	6,000	6,520	9,077
TQ	(3)	(3)	1,710	1,689	1,758	9,009

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[9] Excluding out-year Interstate authorizations as well as funds that have lapsed or were not appropriated.

TABLE 2.—HIGHWAY TRUST FUND AUTHORIZATIONS, RECEIPTS, OUTLAYS, AND BALANCES—Continued

[In millions of dollars]

Fiscal year	Authorizations [1]			Trust fund receipts	Outlays	Cash balance
	Interstate	Non-interstate	Total			
1977	3,250	3,699	6,949	7,302	6,147	10,164
1978	3,550	3,590	7,140	7,567	6,058	11,673
1979	3,600	4,833	8,433	8,046	7,155	12,564
1980	3,800	5,247	9,047	7,647	9,212	10,909
1981	3,900	5,623	9,523	7,434	9,174	9,259
1982	3,900	4,891	8,540	7,786	8,024	9,021
1983				[4] 7,893	[4] 8,237	[4] 8,677

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[1] Interstate authorizations have typically been made available to the states (apportioned) one year or more in advance of the year in which they were authorized.

[2] In addition, $1,105 million of unpaid authorizations from earlier years were also financed from the Highway Trust Fund.

[3] For the Transition Quarter (July 1 to Sept. 30, 1976) funds were not allocated between Interstate and noninterstate programs.

[4] Estimated.

TABLE 3.—SUMMARY MEASURES OF FINANCIAL CONDITION OF HIGHWAY TRUST FUND

[In millions of dollars]

Fiscal year	Cash balance at start of year	Receipts	Outlays	Change in cash balance	Cash balance at end of year	Unpaid authorizations at end of year	Unfunded authorizations at end of year	Years of overhang
1957	0	1,482	966	516	516	4,702	4,186	2.05
1958	516	2,044	1,511	533	1,049	6,769	5,720	2.74
1959	1,049	2,087	2,613	(526)	523	7,562	7,039	2.78
1960	523	2,536	2.940	(404)	119	7,300	7,181	2.57
1961	119	2,799	2,619	180	299	7,764	7,465	2.53
1962	299	2,956	2,784	172	471	8,309	7,838	2.38
1963	471	3,293	3,017	276	747	8,866	8,119	2.29
1964	747	3,539	3,645	(106	641	8,978	8,337	2.27
1965	641	3,670	4,026	(356)	285	8,775	8,490	2.16
1966	285	3,924	3,965	(41)	244	8,856	8,612	1.93
1967	244	4,455	3,974	481	725	9,332	8,607	1.94
1968	725	4,428	4,171	257	982	10,011	9,029	1.93
1969	982	4,690	4,151	539	1,521	11,435	9,914	1.81
1970	1,521	5,469	4,378	1,091	2,612	12,710	10,098	1.76
1971	2,612	5,725	4,685	1,040	3,652	13,950	10,298	1.86
1972	3,652	5,528	4,690	838	4,490	15,273	10,783	1.82
1973	4,490	5,912	4,811	1,101	5,591	[1] 10,462	[1] 4,871	[1] 0.73
1974	5,591	6,675	4,599	2,076	7,667	17,783	10,116	1.49
1975	7,667	6,774	4,844	1,930	9,597	19,671	10,074	1.68
1976	9,597	6,000	6,520	(520)	9,077	N/A	N/A	N/A
T.Q	9,077	1,690	1,758	(68)	9,009	16,098	7,089	0.97
1977	9,009	7,302	6,147	1,155	10,164	17,026	6,862	0.91
1978	10,164	7,567	6,058	1,509	11,673	18,035	6,362	0.79
1979	11,673	8,046	7,155	891	12,564	19,000	6,436	0.84
1980	12,564	7,647	9,212	(1,565)	10,909	18,876	7,967	1.07
1981	10,909	7,434	9,174	(1,740)	9,259	18,914	9,655	1.26
1982	9,259	7,786	8,024	(238)	9,021	19,258	10,237	1.30
1983 [2]	9,021	7,893	8,237	(344)	8,677	[3] 16,602	[3] 7,925	[3] 1.00

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[1] Anomalies caused by a change in the date when highway funds were apportioned.

[2] Estimates.

[3] Based on partial-year authorizations for noninterstate programs as approved by the Congress in order to avoid imposition of the Byrd Amendment.

The first decade.—Over its first ten years, the cash balance in the trust fund averaged under $500 million. This "cash cushion" was quite modest, equal to only about two months of outlays. In large part, this was due to the relatively modest level of taxes paid into the trust fund starting in 1957 and to the relatively high level of authorizations contained in the early bills. The imbalance was partly intentional, since the highway bill originally assumed a deficit condition during most of the 1960's. The passage of the Byrd Amendment forced the Congress to alter this plan, and accordingly it increased highway taxes or switched existing taxes into the Highway Trust Fund in 1959, 1961, 1965. Also, over time, the number of exemptions from highway taxes has grown, reducing tax receipts by almost 10 percent.[10]

In these early years, the typical overhang was between two and three years. This is not surprising given the high level of authorizations for the Interstate system as the Congress attempted to complete it as quickly as possible. The low cash balance, in turn, meant that future revenues were expected to finance current highway authorizations.

The period of a growing cash balance.—Developments were quite different in the 13-year period from 1967 through 1979. The cash balance grew in every year but one (1976) and totalled $12.6 billion by the end of 1979. Several factors appear to explain this shift. First, the Congress increased highway taxes in 1959 and 1961 and revenues were bolstered further by the steady growth in auto and truck traffic during the 1960's and early 1970's. Second, outlays were held down by Presidential impoundments in the early 1970's. Third, from 1973 until 1978 the trust fund extended for only one year beyond the last year of full authorization. This meant that, to avoid imposition of the Byrd Amendment, total apportionments could not exceed the cash balance by more than one year's worth of trust fund revenue—that is, the number of years of overhang had to be one or less. Given Congressional reluctance to raise highway taxes, a limitation on program growth became the only means to meet the Byrd Amendment targets. Further, as the cash balance in the fund has grown, so has the interest earned on the balance, increasing revenues even further. In fact, interest is now second only to the gasoline tax as a source of revenue for the fund.

Between 1967 and 1979, the cash balance averaged $6.2 billion, providing a cushion equal to 15 months of outlays—a sharp contrast with only two months of cushion in the first ten years of the fund. After 1973, the fund had more than enough cash on hand to pay the next year's outlays (of course tax receipts from future years were still needed to cover outlays beyond the next year). Overhang dropped steadily to less than one year, compared with the more than two-year overhang during the first decade.

Most recent years.—Since 1979, the cash balance in the trust fund has dropped from $12.6 billion to $9.0 billion and the number of years of overhang has increased from 0.8 to 1.3. (The current level of overhang is still less than the two years permitted by the Congress in 1978.) This reversal in the earlier trend appears to be caused by two factors. First, in 1978 the Congress increased the overlap between trust fund revenues and program authorizations by an additional year. This change accommodated an increase in authorizations that was reflected in higher outlays starting in 1979 and 1980. Second, revenues have stagnated because of greatly improved fuel efficiency and a generally weak economy.

EXISTING MECHANISMS FOR CONTROL

The Congress currently has three ways of controlling the level of highway spending once authorizations have been made. These are the Byrd Amendment, the Section 302 allocation procedure that is part of the Congressional budget process, and a statutory limit on the annual level of highway obligations. Each of these is discussed briefly below.

The Byrd amendment.—Part of the original legislation that established the Highway Trust Fund was added by Senator Byrd when the bill was under consideration by the Senate Finance Committee. This provision, known as the Byrd Amendment, includes the requirement that:

> If the Secretary of the Treasury determines that, after all other expenditures required to be made from the Trust Fund have been defrayed, the amounts which will be available in the Trust Fund (excluding repayable advances) will be insufficient to defray the expenditures which will be required as a result of the apportionment to the States of the amounts authorized to be appropriated from the Trust Fund for any fiscal year—
>
> (A) he shall so advise the Secretary of Transportation, and
>
> (B) he shall further advise the Secretary of Transportation as to the amount which, after all other expenditures required to be made from the Trust Fund have been defrayed, will be available in the Trust Fund (excluding repayable advances) to

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[10] For 1985, this reduction is estimated to total $760 million.

defray the expenditures required as a result of the apportionment to the States for such fiscal year.[11]

This limitation was added to the 1956 act to ensure that the Highway Trust Fund would not go into deficit. The act also contained a statement of policy that required the following balance between receipts and expenditures:

> It is hereby declared to be the policy of the Congress that if it hereafter appears—
>
> (1) that the total receipts of the Trust Fund (exclusive of advances under subsection (d)) will be less than the total expenditures from such Fund (exclusive of repayments of such advances); or
>
> (2) that the distribution of the tax burden among the various classes of persons using the Federal-aid highways, or otherwise deriving benefits from such highways, is not equitable, the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures, or such equitable distribution, as the case may be.[12]

Together, these two provisions have generally been interpreted to mean that highway funds cannot be apportioned to the states unless the revenues projected to be raised from highway user fees will be sufficient to cover them. As long as the Highway Trust Fund maintains a large cash balance, as it has in recent years, the Byrd Amendment is likely to be triggered only when the taxes feeding the Highway Trust Fund come within two years or so of expiring. At that point, if projected receipts appear inadequate to cover the additional apportionments, the apportionments must be scaled back to fit available revenues. For example, as of September 30, 1982, the Highway Trust Fund had $9.0 billion in cash and $19.3 billion in unpaid authorizations, leaving a difference of $10.3 billion in unfunded authorizations. To offset these unfunded authorizations, trust fund revenues from user fees and interest on the cash balance are projected to yield $7.8 billion in fiscal year 1983 and $9.2 billion in 1984,[13] for a total of $17.0 billion more in revenue—$6.8 billion more than the $10.2 billion in unfunded authorizations. Thus, existing taxes could only fund up to $6.8 billion in programs in 1983 without violating the Byrd Amendment. The Congress used most of this in October, when, it approved $5.1 in highway authorizations for 1983.

In brief, this means that because of the substantial cash balance now accumulated in the Highway Trust Fund, the Byrd Amendment will never be triggered (to force a reduction in apportionments) before the last two or three years for which highway user fees have been extended. As highway taxes approach their expiration date, the Byrd Amendment limits apportionments to fit within projected tax reveneus. Although the Byrd Amendment generally plays its most critical role in the final year of apportionment, it nonetheless can have a constraining influence on the overall level of authorizations provided in a multiyear bill.

The influence of the Byrd Amendment thus depends on the period for which highway taxes have been extended. If taxes have one or two years to run, the Byrd Amendment strongly controls all apportionments and the authorizing committees have very little freedom to adjust authorizations; if taxes are to run for a long period of time (to the year 2000, for example), the Byrd Amendment will play a critical role only in the final year or two of apportionments. For the Byrd Amendment to be a controlling factor, the cash balance must be at a low level as it was during the early years of the fund.

In addition, the Byrd Amendment has been interpreted to require that the Highway Trust Fund not carry any short-run deficit, even if projected revenues will eventually cover outlays. The Congress voted to suspend the Byrd Amendment in 1959 and 1960 when it appeared that the trust fund would run a short-run deficit, even though this did not represent an inadequacy in the long-run ability of the fund to generate sufficient revenues to cover outlays. At that point, highway taxes had been enacted covering 16 years into the future, and there was no question that there would ultimately be enough revenue to pay all 13 years of approtionments. Because the Byrd Amendment was interpreted to exclude any deficit in the Highway Trust Fund, it was temporarily suspended. Since the fund now has a large cash balance, this interpretation should not apply over the next several years.

Budget Act controls.—Through the reconciliation process established under Section 302 of the Budget Impoundment and Control Act of 1974 the Public Works Committees, as well as all the other committees that create budget authority, may be directed by the Congress to reduce budget authority by specified amounts. In the case of the Public Works Committees such reductions are usually restricted to cuts in highways or airports or to increases in offsetting receipts.

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[11] Section 209(g)(2) of the Highway Revenue Act of 1956, including technical amendments made in 1978.

[12] Section 209b of the Highway Revenue Act of 1956.

[13] This includes funds from taxes that would be assessed in 1984 but not actually received by the Treasury until early 1985.

Annual obligation ceilings.—Obligation ceilings are another budgetary device for controlling highway spending, which the Congress has employed in every fiscal year since 1975. Under this device, the Congress sets a limit on the total amount that can be obligated in a year. (It will be recalled that each state can obligate apportioned funds over a multiyear period according to program provisions. Thus, in any particular fiscal year, a state might be able to obligate funds from several fiscal years.) When the Congress enacts an obligation ceiling, it is distributed roughtly proportionally among the states, resulting in a limit on the obligational authority permitted to each. Obligation ceilings were originally enacted as a means of preventing surges in obligation ceilings were originally enacted as a means of preventing surges in obligations (and thus surges in outlays) such as occurred in the early 1970s when Presidential impoundments were released. In recent years, obligation ceilings have also been used to control the overall level of highway spending.

While they are still a crude method of limiting outlays, obligation ceilings offer more fine-tuned control than does the Byrd Amendment. Because obligations are typically made about one and one half years before cash outlays, controls on obligations have more direct and predictable impacts on cash requirements. By contrast, the Byrd Amendment restricts outlays. Because it serves only the purpose for which it was created, namely guarding against deficits in the Highway Trust Fund, the Byrd Amendment is not as effective a method of budgetary control as are obligation ceilings.

While obligation ceilings are the only means by which the Congress can control existing highway authorizations short of a rescission, they conflict with authorizing legislation if enacted recurringly. In other words, while the apportionments made under authorizing legislation grant the states the authority to obligate certain sums, the total of these sums can be restricted by obligation ceilings.

FINANCIAL OPTIONS FOR THE COMING FOUR YEARS

Because highway revenues have been relatively static in recent years and will continue to be so under present legislation, the cost of keeping the nation's highways physically and functionally adequate will increasingly exceed the revenues available under existing law. Sooner or later the Congress will need to make more funds available. In the next few years, highway financing practices could move in either of two directions: additional highway user fees could be enacted to finance increased federal spending on highways, as proposed under H.R. 6211, or the cash balance in the Highway Trust Fund could be drawn upon as implied by S. 2579. While other courses of action are possible, these two reflect the most probable ways of coming to terms with current financial pressures. Accordingly, this paper concludes by sketching briefly how the current financial controls on the Highway Trust Fund would operate in each of these situations. The discussion focuses on two illustrative authorization bills:

1. The $54 billion, four-year highway program reported by the House Public Works Committee, together with passage of the four-cent-per-gallon tax on motor fuels (or equivalent) proposed by Secretary of Transportation Drew Lewis.[14]
2. The Senate's 38 billion, four-year highway proposal, which increases highway program levels so that the balance of the Trust Fund would be drawn down to $4.1 billion at the end of 1986.

Numerous variations of the two approaches are possible.

The House approach: Increased program; increased user fees.—The bill proposed by the House Committee on Public Works and Transportation in 1982 illustrates how the Highway Trust Fund would function if both taxes and spending were increased by roughly equal amounts. Under this proposal, annual authorizations from the Highway Trust Fund would grow from $12.58 billion in fiscal year 1983 to $14.58 billion in fiscal year 1986, representing an average increase of $5.0 billion relative to the 1982 authorization of $8.5 billion. The House bill also proposes an increase in highway user fees equivalent to an increase of 5 cents per gallon in the tax on motor fuels. Of this increase, 80 percent of the proceeds, or about $4.4 billion annually, would go to highway programs.

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[14] As proposed, this tax would raise the same amount of revenue as would a 5-cent-per-gallon increase in the tax on motor fuel. Of this, one cent per gallon would be reserved for capital grants for transit, leaving the equivalent of four cents per gallon as an increase in highway revenues. As this is written the exact form of the tax is unspecified. Rather, specific rates for motor fuels, truck excise taxes, and use of heavy trucks would be developed later in such a way that the taxes levied on each group of highway users would be equitable.

Allowing for normal delays in outlay rates (and assuming no limitation from obligation ceilings) the balance in the Highway Trust Fund would grow substantially—from $9.0 billion at the start of fiscal year 1982 to $14.4 billion at the end of fiscal year 1986. Over the same period, unpaid authorizations (apportioned funds not yet outlaid) would grow from $19.3 billion to $27.5 billion. This means that unpaid authorizations at the end of fiscal year 1986 would exceed the cash balance in the Highway Trust Fund by $13.1 billion—equivalent to about one year of revenue, assuming the higher taxes included in the House proposal (Table 4). Also, if the tax writing committees limited the duration of future revenues to slightly more than one year, the authorizing committees would have very little freedom to increase authorizations through 1986 without concurrent action by the tax committees. At the end of fiscal year 1982, unfunded authorizations exceeded the cash balance by an amount equivalent to 1.3 years of revenue (at current tax rates). Thus, the degree to which highway finance depends upon future revenues would actually diminish somewhat under the House proposal, and the current two-year overhang could be reduced substantially.

TABLE 4.—THE HIGHWAY TRUST FUND UNDER THE HOUSE PROPOSAL

[In millions of dollars]

Fiscal year	Authorizations [1]	Outlays [2]	Trust fund receipts [3]	Cash balance end of year	Unfunded authorizations	Years of cushion (cash balance divided by next year's outlays)	Overhang [4]
1982		8,020	7,790	9,020	10,240	1.0	0.9
1983	12,580	8,920	12,180	12,280	10,640	1.1	0.8
1984	13,050	11,280	12,860	13,860	10,830	1.1	0.8
1985	13,650	12,340	12,960	14,480	11,520	1.1	0.9
1986	14,580	13,090	13,010	14,400	[5] 13,090	1.0	1.0

[1] Total authorizations from the trust fund including programs already enacted into law.

[2] Estimated by the Congressional Budget Office on the assumption that obligations equal authorizations.

[3] Based on Treasury forecast of tax receipts with a four-cent-per-gallon increase in the motor fuels tax and on the Congressional Budget Office estimate of interest rates.

[4] Unfunded authorizations divided by next year's receipts.

[5] The amount of revenues required after 1986.

Note.—These calculations assume the program became effective October 1, 1982.

Overall, the House proposal would keep the Highway Trust Fund in strong financial condition. While the cash balance would increase by over $5 billion, this essentially represents a continuation of the current situation. Indeed, allowing for continued inflation and increases in authorizations, the cash balance at the end of fiscal year 1986 would still be able to support about one year of program authorizations, just as at present. The Highway Trust Fund would remain in sound financial condition, maintain adequate cash reserves to cover possible contingencies, and, because of the large cash balance, be capable of sustaining itself for some time if the authorizations and tax rates enacted for fiscal year 1986 were continued thereafter.

The Senate approach: Drawing down the cash balance.—During 1982, the Senate Committee on Environment and Public Works reported a bill that would have authorized modest increases in highway programs during the next four years, growing from $8.71 billion in fiscal year 1983 to $10.25 billion in 1986. Such a four-year program could be financed without an increase in highway taxes by drawing down the balance in the Highway Trust Fund. This approach would leave the Highway Trust Fund with a balance of about $4.6 billion at the end of 1986 (Table 5). Relative to current conditions, this would represent a substantial shift. Although the $4.6 billion balance would be sufficient to cover most contingencies, such as an error in predicting revenues or outlays, it would nonetheless be only half the current balance. Relative to outlays in 1986, the cash in the Highway Trust Fund could finance less than one half year of spending as against the current cushion of one year. The dependence upon future revenues would grow as well: by the end of fiscal year 1986 under this approach, the trust fund would need 2.2 years of receipts to pay off its unfunded authorizations, up from the current value of 1.3 years. Most important, the authorizations of the Senate bill could not be sustained very long without increasing taxes. If the 1986 authorizations of $10.25 billion continued in 1987 and after, the balance in the Highway Trust Fund would fall to around $2.5 billion at the end of 1987. By the end of 1988, the Congress would be forced to increase highway taxes or reduce the authorizations: the Highway Trust Fund would be out of cash. While no one has proposed such a future course of action, this example illustrates the risk inherent in drawing down the cash balance in the fund. This approach would be feasible for a few years but could not be sustained indefinitely.

TABLE 5.—THE HIGHWAY TRUST FUND UNDER THE SENATE PROPOSAL

[In millions of dollars]

Fiscal year	Authorizations[1]	Outlays[2]	Trust fund receipts[3]	Cash balance end of year	Unfunded authorizations	Years of cushion (cash balance divided by next year's outlays)	Overhang[4]
1982		8,020	7,790	9,020	10,240	1.1	1.3
1983	8,710	8,260	7,820	8,580	11,130	1.0	1.4
1984	9,800	8,740	8,010	7,850	12,920	0.8	1.6
1985	9,800	9,410	7,950	6,390	14,770	0.7	1.9
1986	10,250	9,710	7,920	4,600	[5] 17,100	0.5	2.2

[1] Total authorizations from the Highway Trust Fund including certain programs already enacted into law and programs (such as safety grants) under the jurisdiction of other committees.

[2] Estimated by the Congressional Budget Office.

[3] Based on Treasury forecast of tax receipts and on the Congressional Budget Office estimate of interest rates.

[4] Unfunded authorizations divided by next year's receipts.

[5] The amount of revenues required after 1986.

Note.—These calculations assume the program became effective October 1, 1983.

Conclusion.—Increased highway authorizations must be paid for, sooner or later, by increased highway user taxes. If taxes and outlays are increased by roughly equal amounts, the Highway Trust Fund will remain financially sound. An alternative would be to increase authorizations without increasing taxes immediately, by drawing down the cash balance. While such an approach is feasible for a few years, it reduces the financial security of the Highway Trust Fund and ultimately forces the Congress to increase taxes or cut programs in some future year when economic conditions and highway needs are less certain than at present.

Chairman ROSTENKOWSKI. At the outset, let me make the observation that I have enjoyed working with Don Clausen, an outstanding Member of Congress from California. He has been a legislator in the finest sense of the word. Partisan politics in most instances never entered into any presentation he made before this committee or on the floor of the House of Representatives.

So, on a personal basis, I know that we will miss the contributions that you have made both in terms of your presentations before this committee and the contributions you have made on the Public Works Committee. Don, on a personal basis, we have lost something. However, I know, too, that your commitment to government and to serving your fellow man is so great that you will be around for a long time to come.

Mr. Chairman, you know as well as I do that Secretary Lewis has been quite cooperative. As a matter of fact, in his testimony this morning he gave every indication that the Transportation Department is not in cement on this legislation, that they are flexible. They realize that we will try to move this proposal as expeditiously as possible and I hope as prudently as possible with as much correction that is necessary to make it good legislation. I have had every indication from members of the committee that they are willing to work, burn the midnight oil if necessary, to develop a good bill.

I would like also to say that the Public Works Committee and the Ways and Means Committee were ready to move on this some time ago. The Secretary of Transportation was willing to move on this. I am glad that we got other people on board. I am sure without naming them that we all know who that is.

I also think that our primary obligation here is to improve the highway system if we can—certainly repair it where necessary—because the commerce of this country moves on those great arteries.

I think that Members of Congress have an obligation to see that the system functions properly. We have an obligation to see that the system is safe. So I am happy to join with you in moving this legislation as expeditiously as possible.

There is one area about which I am confused.

As I understand it, the continuing resolution provided for $518 million for fiscal year 1983 for the interstate transfer. I think your original proposal, H.R. 6211, had authorized $775 million for the interstate transfer. The new substitute, as I understand it, reduces this authorization to $518 million, which is already appropriated. Where are we with your original proposal? That is what I am concerned about, because as any other Member, there were allocations of dollars for areas in Illinois with respect to which I am concerned.

Is there going to be a reduction? Is it proportionate? Or will the new money be an enhancement to the moneys already authorized by your committee?

If you could enlighten me on this, I would appreciate it.

Mr. HOWARD. The new money would be an enhancement overall, naturally, because we are not going to intend to collect any additional money from the people and not utilize it in this fiscal year. As I understand the relation of the $775 million which you were interested in, $518 million has been appropriated. That is in there, but we do have a provision in the bill for the difference between the $518 million to the $775 million so that the actual amount in the legislation should this legislation pass and stay would be the $775 million which you had indicated. I believe that that will be the figure.

Then, of course, in the outyears I do not know what the numbers are in there. It would be the $775 million in the out years also. That is taken care of, although it did not look like it when you looked at the numbers.

Chairman ROSTENKOWSKI. With the exception of the reallocation provisions in the administration's proposal which are somewhat controversial. I suggested that those people that have serious problems with the administration's proposal should get together with Secretary Lewis and start ironing out their differences, so that we can proceed as expeditiously as possible.

If the administration's legislation is the original proposal, then I think that there would be a counterproposal from which we could work. Having said that, I want to personally thank you for joining us and for giving us the benefit of your observations.

Mr. HOWARD. Thank you, Mr. Chairman. Thank you for the cooperation you and your committee have shown. As you say, both of us were ready to move on this as long ago as last May when the authorizing legislation passed unanimously by voice vote out of our committee; and I believe that the vehicle that we should pursue in authorizing is H.R. 6211 with a committee substitute for it; and I believe perhaps the administration's proposal will be worked on from the other side and we will certainly get to that in conference.

Thank you very much.

Mr. HOWARD. I would also like to state, if I may, at this time that the chairman of our Subcommittee on Surface Transportation, which put together this legislation, Mr. Anderson from California, is here now. He does have a brief statement, I believe. I can either insert it in the record or read it with the committee's permission.

Mr. JACOBS. Yes; the former Lieutenant Governor of California is most welcome.

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, CHAIRMAN, SUBCOMMITTEE ON SURFACE TRANSPORTATION, COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. ANDERSON. I apologize for being late. Chairman Howard here had me working all day handling a surface transportation committee. We just recessed. That is why I was late. I probably should not say anything, because it sounds like you are already going along with us, but I will be very brief.

I am pleased to be here today to discuss this legislation. It is important for the reasons mentioned by Chairman Howard and Congressman Clausen that the matter receive immediate attention. During July 1981, the Subcommittee on Surface Transportation, which I chair, held 6 days of hearings here in Washington on the country's short- and long-term highway safety and public transit needs. Numerous other hearings were held on the subject in other cities and towns throughout the Nation.

What we learned was devastating. We learned that our Interstate System initiated in the fifties with a design life of 25 years was crumbling. We learned of transit systems that were structurally decaying and functionally obsolete. And that too many cities needed to build or rebuild their public transit systems. The Federal funding just was not keeping track with established needs.

Even those problems that were increasing were not keeping up with inflation. The Department of Transportation estimated that the buying power of their own highway bill would decrease by 50 percent by 1986. The subcommittee and the full Committee on Public Works and Transportation responded in a reasonable manner by producing H.R. 6211, which was designed, based upon one overriding theme, to meet the Nation's transportation needs.

The revenue required to do this, however, exceeds that which is currently generated. The funding needs upon which my subcommittee received extensive testimony and which are reflected in H.R. 6211 will require the infusion of about $5½ billion in additional moneys each year. President Reagan has reviewed and recognized this problem and recommended that the tax on motor fuels be increased by 5 cents a gallon. Additional user's fees aimed primarily at larger trucks would also be levied according to the administration proposal.

I know it had been presumed that the fuel user fee would only need to be increased by 4 cents, with the remainder generated by various other trust fund revenue sources. While this would strike me as the preferable course, I am quite willing to defer to this committee, the Ways and Means Committee's judgment, on the best means of raising funds needed to finance our Nation's vital transportation program.

Mr. Chairman, I am convinced our Nation needs H.R. 6211. I hope this committee acts to allow us to bring that important legislation to the House floor.

Mr. JACOBS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman. I want to thank all three of the witnesses for their splendid testimony. I would like to tell you it is much appreciated here. We always enjoy their testimony.

To my good friend, Don Clausen, I regret it will be his last official appearance as a Representative of the First District of California; but I am sure there will be many other kinds of appearances and we will have the benefit of his wisdom in the coming years.

Mr. Chairman, I would like to ask unanimous consent that all members have leave to introduce questions into the record for this panel and others.

Mr. JACOBS. Without objection.

Mr. FRENZEL. Thank you.

Mr. JACOBS. Mr. Gibbons.

Mr. GIBBONS. First, before I launch into the questions, let me say to Don Clausen, Don, I have had the privilege of knowing you for 20 years. I admire you, I respect you, I like you. We are going to miss you. You are a fine gentleman and a fine legislator.

Mr. CLAUSEN. Thank you.

Mr. GIBBONS. You will be mighty difficult to replace, if ever.

Let me ask the panel some questions about the legislation.

Perhaps I will start off in a different vein. I am not prepared to vote for the gasoline tax or any of these things until some of these provisions come out of your bill. I am talking, one, about the Shuster amendment. That is a direct invasion of the Ways and Means Committee jurisdiction. I will never vote for any bill that contains the Shuster amendment in it.

Mr. HOWARD. Which one?

Mr. GIBBONS. That's the one with the domestic content legislation. I want to make that real clear, real plain. Any bill that comes before me that has that amendment in it, I will not vote for it. The chairman says I don't fully support that amendment. So I can't vote for your bill in the condition it is in.

That is in the Ways and Means Committee's jurisdiction. It is disastrous as far as our economic policy and our trade policy is concerned, and unless it is out, I can't vote for any part of this bill or the administration's bill or anything else.

Mr. HOWARD. If I may, Mr. Chairman? This has been discussed. Radical changes in it perhaps in a way that would not infringe on the Ways and Means Committee have been talked about and discussed. As you know, our colleague, the ranking member on the subcommittee, Mr. Shuster, was in a very bad automobile accident in late October and has not been available. He has had several operations, and we have not been able to talk directly with him. We understand there would be changes. We just hope by the time we get it to the floor, that we would be able to get your support for it.

Mr. GIBBONS. In any way, shape, form, I can't support it. I didn't know about Mr. Shuster's unfortunate accident. I am very sorry for him. His amendment is atrocious. Unless it comes out, I can't vote for this tax, any part of the tax. I will do all I can to oppose it.

Let me ask you. What in your bill do you do about truck weights, widths, and enforcement of the existing weight and speed laws?

Mr. HOWARD. The regular speed laws, as you know, we do have firm legislation that has been in effect for quite some time and been quite productive for trucks and all other vehicles.

As far as consideration of weights and lengths, it has been my intention, personally, and I believe the committee, that there must be a substantial change in the amount of excise taxes and especially taxes that the trucks do pay. We have had studies that have been many years evolving as to the cost allocation, who is paying too much, who is paying too little. Those are completed. The result that we had received is apparently that the smaller trucks perhaps have been paying more than their fair share and the heavier trucks paying less than their fair share.

There has also been consideration on 6 inches in the width and on length considerations. However, it has also been my feeling and the feeling of many members of our committee and understood by those involved in the trucking industry that the two must go hand in hand. Once this committee passes what it feels is just increases due to these reports in the excise tax, then the House would be—would consider the weights and lengths; but, without any change in the excise tax or payments by the Ways and Means Committee that they would not be considered. They would have to go together.

So what it is intended, since there are weights and lengths in this legislation, is one of two things, perhaps. Either—if there is no agreement made in this short time on the excise taxes that the weight and length provisions be taken out of the bill; or if they are left in the bill, they are left with the provision that they will take effect only upon the enactment of legislation coming out of the Ways and Means Committee concerning the increase in the excise tax.

So that's also been a package in our view and mine and it has been publicly stated for the several years that we have been contemplating this legislation.

Mr. GIBBONS. What do you do about the grandfather provision or the so-called grandfather provision for the over 80,000 pound-trucks?

Mr. HOWARD. That is left intact. It is not changed.

Mr. GIBBONS. That assures that any highways we now have will be continually ground up by trucks that are weighing more than the highway was designed for?

Mr. HOWARD. At this moment, it would, Mr. Gibbons, presume that if not by this legislation next week, this entire provision is worked out, that it will shortly after the convening of the next Congress, when I believe there will be continuing as there is now dialog with the Ways and Means Committee, the Department of Transportation, and the trucking industry on this legislation.

Mr. GIBBONS. I have no confidence in dialog. I just want to see when we are really going to have a grandfather provision that is a grandfather provision. These are great-great-great-grandchildren we are talking about not grandfathering. The grandfather provision was put in the statute back in the early fifties, about 1956, as I recall. But it wasn't really a grandfather provision. It just licensed overweight trucks for which our highways were not designed and for which they are not built and for which they are tearing them up at a very rapid pace.

In effect, the trucks that these things were grandfathered for are out of existence and in the scrap heap. We still continue to allow the overweight, overdesigned trucks on the highways to tear up this investment by all of us American taxpayers. What I want to know is when is your committee going to put a stop to it?

Mr. HOWARD. We hope to be able to put a stop to it and put a fair proposal in as soon as the Congress passes legislation from this committee as to a fair consideration in relation to the benefits that the trucking industry receives from the entire program.

Mr. GIBBONS. I don't see how we can figure out what is going to be a fair contribution until we figure out what the weight limit is.

Mr. HOWARD. We will have in this legislation, if it is put in, it would be legislation in relation to the weights which is the 80,000, which all but three States have at the present time. It would adjust the three States to it; 47 have passed that under a permissive activity.

Mr. GIBBONS. You are talking about minimum. I am talking about maximum weights for vehicles. I am talking about gross maximum weights for the vehicle. I am talking about trucks that can get special license for a wave of the hand and $5 in some States to go out and load more than 80,000 pounds, that can chew up the highways. The billions of dollars that we have already got invested in the existing highways and the billions of dollars we are going to invest in them, weights for which the highways were never designed to carry, and the bridges were never designed to carry, and people have been—these overweight trucks have been committing an aggression against the rest of our property.

You all haven't put anything into it. The administration hasn't put an end to it. I just am not ready to vote for anything until I find out what is going to happen. Is anything going to happen?

Mr. HOWARD. I presume something is going to have to happen if we can't get the votes to pass the legislation, Mr. Gibbons. As I say we have been dealing most of our time with the length, width provision in the legislation and certainly we will be discussing as soon as we leave this hearing the situation which you bring up on the grandfathering.

Mr. GIBBONS. On grandfathering, on Shuster, this jobs bill or tax bill or whatever you want to call it isn't worth it. Unless—unless I am convinced those things are coming out, I can't support it. I want to be frank with you. It is not a threat. I believe in laying it out like I see it.

Mr. HOWARD. You do. Thank you, Mr. Gibbons.

Mr. JACOBS. Further questions from the committee members? Mr. Guarini?

Mr. GUARINI. Yes, Mr. Chairman. First, I would like to acknowledge Mr. Clausen and say I wish you well, whatever you do in the future. Thank you for the helpfulness you have been to me as a young legislator. I also want to thank my dear colleague from New Jersey for his peaceful appearance before the Ways and Means Committee, knowing that everything is happy and unwarlike again. I also want to thank Mr. Anderson for the benefit of your thinking.

Jim, one thing I am concerned about is the trucking industry has really been hard pressed since the days of deregulation. I am wondering whether or not this is going to put that much of an extra burden on them. I understand in many instances some trucks will go from $160 to $5,000 for a user fee. Could you comment on that?

Mr. HOWARD. What I would like to say, Mr. Guarini, as to the trucking industry, you know, we did pass truck deregulation legislation in the last Congress. In that, to be sure that things might not get away from us as it may have in prior attempts at deregulation in different industries, we mandated an annual review of the truck deregulation legislation that we did pass. Of course, there have been difficulties in the trucking industry; but even the testimony that we got from the trucking industry stated that their problems, they could not be certain, they could not say that that truck degreulation had any adverse effect on them at all. The economy has been so bad for such a long time that that may be, if not most, perhaps the total reason for it.

So we do not have a situation where any special legislation by the Congress has given them a difficult situation. What we feel is this, especially on the width situation: Because we arbitrarily, when this legislation began with the interstate back in the fifties, put in an 8-foot, outside width for the trucks, which is 6 inches less than many of the buses have that are traveling the same roads now, we had a less than, by a few inches, 8-foot width on the inside of the trucks. Therefore, an awful lot of packaging that goes into these vehicles as well as plywood and other things that would be by the foot, 2 feet, 4 feet, or 8 feet would not be able to be contained in those trucks. What has happened is we have had many, many trucks on the road partially full. Therefore, to carry the same load, we have eventually more trucks carrying an amount that could be carried by fewer trucks if we have this.

That, in a way, would make the trucks more efficient; it would help the highways; you would have fewer trucks on the road, less energy being used, more safety, and you would have more productivity in the trucking industry which then could help them to be able to gather benefits.

So this situation would not be so dire as well as being able, we believe, to help the consumer in the long run. So even though a 6-inch width seems like a little bit or maybe too much to some people to go to where many of the buses are on the interstate now, there are many very practical energy, safety, highway-wear benefits from this. We believe that the heavier trucks, we believe from what we have read, should be paying more than they are now.

Of course, your committee will be the ones who will get into it to be able to determine what a fair payment is. It seems to indicate from all the reports we have that the smaller trucks have been in the past paying a little more than their share and the heavier trucks less.

So I don't think that we could say—we certainly can't say this kind of a new program which will make more efficient highways is going to be to the detriment of the ailing trucking industry.

Mr. GUARINI. Will it be more or less a tradeoff then?

Mr. HOWARD. We believe it will be fair, which would be a tradeoff. We think everyone, including the consumer, could benefit by the changes made.

Mr. GUARINI. Has this message gotten to the truckers?

Mr. HOWARD. The leadership of the trucking industry I have talked to have been very practical and reasonable about this. There should—the difference seems to be between the administration and truckers as to they are all willing to charge a fair increase and the truckers are willing to pay a fair increase. The difference at the moment is what is the fair increase.

Mr. GUARINI. You think eventually the benefit would come down to the consumer in the cost of goods?

Mr. HOWARD. I believe so. There can be increased productivity in saving the number of trucks on the road. You are not only going to save the use of fuel, but the cost of fuel to the trucking industry. You will be able to have the cost come down in relation to whatever else is happening to the economy, of course, yes.

Mr. GUARINI. Lastly, the 6-year sunset, was there a reason why 6 years was picked? Was it programed out? I understand the taxes come off after 6 years?

Mr. HOWARD. What will happen is we have legislation that is 4-year legislation. We generally work in the 4- or 5-year range because if you have a shortfall, it does not let the States and recipient have time to make long-range plans as to how to use the legislation. If we have a longer bill, and the administration's bill is 6 years, then perhaps we get too long authorizing legislation, so that there is not the mandate for the Congress to review and look over the legislation to see what the new avenues ought to be at that time.

Of course, we think a 4-year bill is good. What we have also done from the beginning is we don't want to collect the money before we need it. We don't want to take the people's money and hold it. So what we have had from the very beginning is a 2- or 3-year collection of the money beyond the authorization data because those projects will not be completed in a few years and the money will not be due in a few years; and it seems that 2 years beyond the legislation, which is what we—Ways and Means—have tended to do, seems to be a very reasonable thing, fiscally sound, so we know the money will be there not at the very begining of a project, but the way it ought to be, that the money will be there when the money comes due.

Mr. GUARINI. Four years is a fair sunset?

Mr. HOWARD. Four years for our legislation and whatever the committee thinks, a few years beyond that for the trust fund.

Mr. Jacobs. The committee is grateful to the panel for its contribution. I would like to state on my own account, my own tribute to Congressman Clausen, a dear friend, a respected colleague, and to remind us all to remember that elections are for 2 years, friendships are forever. I am grateful for yours, sir.

Mr. Anderson. I have a unanimous consent request. Congressman Mineta had a statement he wanted to make. Could we make that part of the record?

Mr. Jacobs. Whether that was a magnanimous consent request or unanimous consent request, it is granted.

[The statements of Congressmen Shuster and Mineta follow:]

STATEMENT OF HON. BUD SHUSTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I am very pleased that we are able to testify in support of legislation to rebuild America's highway system. For the last ten years, since entering Congress, I have been aware of the deterioration of our highway infrastructure and a believer in a pay as you go system. I have urged at various appropriate instances that the highway user fee be adjusted to meet those needs. The strong voices of support for this legislation are encouraging. I commend the Chairman of this Committee, the President, DOT Secretary Drew Lewis and the Speaker for their support.

Also I am pleased to see that our concerns expressed when we last appeared before this Committee have been substantially answered and that an agreement acceptable to both sides has nearly been reached. It is important that the House Public Works and Transportation Committee and the House Ways and Means Committee go to the House Floor united on crucial legislation having such a positive impact on this Nation. The legislation we support will create thousands of new jobs and put our country back to work, among other things, repairing the 10 percent of our interstate system which needs immediate resurfacing and rehabilitating the more than 40 percent of our bridges that are over 40 years old.

As the Chairman of the National Transportation Policy Commission, which submitted its report in 1978, it was clear then that present revenue sources were not meeting our Nation's needs. The Commission forecast for overall highway needs based upon a medium growth scenario for the period 1986 to 2000 totaled over $606 billion, Federal, state and local government shortfalls of revenue by 1986 to meet those needs would amount to nearly $40 billion in 1985. The action taken by this Committee and Congress will help significantly to alleviate these needs.

Therefore, I wholeheartedly urge this Committee to act expeditiously on this user fee increase and allow the Highway Trust Fund to continue to work efficiently repairing our valuable national assets of our highways.

I am thankful for the opportunity to submit this written testimony today and wish to emphasize that but for a recent automobile injury I would be here in person testifying for the passage of this legislation.

Explanatory note.—On October 11, 1982 Congressman Bud Shuster traveling to a speech in his Congressional District as a passenger in an automobile, was involved in a head-on collision that necessitated two major operations. While the Speaker has granted the Congressman a medical leave of absence, it is the Congressman's intention, as the ranking Member of the Surface Transportation Subcommittee, to be present on the floor to participate in the management and support of this vital transportation legislation.

STATEMENT OF HON. NORMAN Y. MINETA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, AVIATION SUBCOMMITTEE OF THE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

The Administration's proposed Federal-Aid Highway Reauthorization bill, H.R. 7330, contains one serious negative impact on general aviation. I assume this was the product of an inadvertent drafting error on the part of the Administration in preparing this bill, but whatever its origin, it is a feature of the bill which would have serious consequences for an important segment of aviation and which can and should be remedied as quickly as possible.

Section 305 of the bill raises the taxes on diesel, gasoline, and special motor fuels from 4 cents per gallon to 9 cents per gallon. One of the effects of that section, however, would be to add 5 cents per gallon not only to the fuel used by automobiles and trucks, but also to the aviation gasoline used by general aviation.

The recently-enacted 1982 tax bill already imposed substantial tax increases on general aviation, raising their fuel taxes from 4 cents per gallon to 12 cents per gallon. The effect of the bill as drafted would be to further raise that to 17 cents per gallon.

The Congress recently completed its deliberations on what general aviation taxes should be. A further increase would be totally unwarranted and I am not aware of anyone who is seriously advocating that such an increase would be warranted.

This legislation can and should be modified so that general aviation's user taxes are not increased in any way by it and so that all of the user taxes paid by general aviation continue to be credited to the Airport and Airway Trust Fund.

Mr. JACOBS. Our next witness is Phil Sharp.

STATEMENT OF HON. PHILIP R. SHARP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, AND CHAIRMAN, SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS, COMMITTEE ON ENERGY AND COMMERCE

Mr. SHARP. Thank you, Mr. Chairman.

You are engaged in very important work of trying to see to it we have bridge and road repair. This is important in our area and important to the jobs in my own State. I want to testify this afternoon on a related subject, and that is that you can help to make sure we secure in the future a fuel supply for our transportation system.

I am here to suggest to you that you adopt a temporary tax exemption for near neat alcohol fuels, that is 85-percent pure methanol and ethanol fuel supplies. Our subcommittee held several days of hearings on the subject of methanol as a fuel. It was unanimous in the testimony that this fuel is a clean, efficient, economical, and safe fuel and that clearly we have the base on which methanol could be derived.

At the present time most is being derived from natural gas. The main obstacle to its development and use in this country is simply the chicken and egg problem. Methanol use would require some change and modification in our vehicles and the producers of vehicles are reluctant to make any such change until a distribution system is available and the demand is clearly there. At the same time those people who produce and market the fuel are unwilling to do so until the vehicles are in production and neither will move first to cause that to happen.

I think an exemption would help stimulate action; probably the action would come in terms of fleets in the private sector for those who have a fleet of automobiles. I would suggest you would want to limit the availability of such an exemption to a certain number of years such as 10 or to a certain number of vehicles, that is until there is a production of perhaps 10,000 vehicles.

As a result of such a proposal, I believe there would be very little risk to the Government in terms of lost revenue, but there is a potential that it might help to stimulate what could be a very important fuel supply. And I might add be a cheaper fuel supply in the future for our consumers.

With that, Mr. Chairman, I will conclude my formal testimony and be happy to answer any questions. I would like to call the members' attention that they have each been provided with not only testimony but a backup sheet with respect to our fuel supply and with respect to methanol as an alternative to gasoline.

[The prepared statement follows:]

Statement of Hon. Philip R. Sharp, Chairman, Subcommittee on Fossil and Synthetic Fuels, Committee on Energy and Commerce

I would like to thank the Committee for the opportunity to testify at these hearings on a proposed additional five cents per gallon transportation fuel tax. I support the measure because the badly needed revenue will provide needed jobs and overdue highway repairs.

I do recommend, however, that you provide a temporary exemption from the tax for near-neat alcohol fuels, such as methanol and ethanol. With no significant loss of revenue, this action could provide a significant stimulus to the development of a non-crude-oil-based automotive fuel and could lead to a major reduction in America's oil imports and vulnerability, a stimulus to the coal industry, an expanded market for farm products, and a reduction in overall consumer energy costs.

Currently, alcohol fuels made from biomass receive an exemption when blended in a 10 to 90 ratio with gasoline. However, alcohols made from domestic sources such as natural gas and coal do not qualify.

In order to stimulate the use of alternative fuels and reduce our reliance on imported oil, I propose that fuels such as methanol and ethanol, when used in near 100 percent concentrations and manufactured from any non-crude-oil-based feedstock, be exempt from the transportation tax fuel tax.

The Subcommittee on Fossil and Synthetic Fuels of the Committee on Energy and Commerce held hearings this year on the commercialization of methanol as a transportation fuel. There is a fairly clear consensus that methanol, like ethanol, is safe, clean, efficient, and in the national interest.

The principal obstacle to the widespread substitution of methanol for gasoline as a motor fuel is a "chicken and egg" problem. Manufacturers will not mass produce methanol-fueled vehicles until there is a distribution system for methanol, but methanol marketers will not establish the retail distribution system until there are a sufficient number of cars equipped to use the fuel.

An exemption from the Federal Road Tax on transportation could help to break this deadlock by providing savings on fuel to offset the $600 to $1200 extra cost of vehicles that must now be specially ordered or converted. It would probably be used first by fleet owners or others who could always fuel their cars at one location where alcohol fuel is available, but the savings would encourage others to tolerate the inconvenience of fewer available fueling locations.

The exemption should be terminated or phased down when manufacturing and marketing reach viable levels, for example, after a specified number of years (perhaps ten years if the tax lasts that long), or the sale of a specified number of alcohol-fueled vehicles per year (perhaps 10,000). While the number of alcohol-fueled vehicles remains small, the revenue losses due to such an exemption would remain correspondingly low.

The advantage of such an approach is that if the marketplace fails to choose methanol, the government has lost virtually no revenue, but if methanol does become a viable transportation fuel, the cost of the Federal incentive was small in comparison to the benefit of a domestic alternative transportation fuel.

Appended to my statement is a summary of the need for an alternative to gasoline and the reasons why methanol is the likely alternative.

Considering the potential major benefits from methanol and the small cost, I hope Members of the Committee will help to ensure that methanol has the opportunity to compete with crude-oil-based-fuels in the marketplace.

NEED FOR AN ALTERNATIVE TO GASOLINE

Despite the short term crude oil surplus, the U.S. continues to rely on imported oil supplies from potentially unstable sources.

The transportation sector is totally dependent on gasoline and diesel fuel from crude oil, about 40 percent of which represents imported sources. Thus, during an embargo on crude oil, the transportation sector is especially vulnerable.

Gasoline usage is 6.6 million barrels per day; crude oil imports are 4.4 million barrels per day, costing the U.S. about $50 billion a year in foreign exchange. Substitution of methanol for gasoline will result in a direct reduction of imports.

Over the past ten years, there has been a major effort to conserve gasoline. Carpooling, mass transit, more fuel-efficient cars, and other conservation efforts have had an impact on gasoline use, but demand remains high.

Given the limited potential for reducing transportation fuel use, fuel must be supplied from alternative sources in the near future in order to supplement and eventually replace those obtained from petroleum. In its 1982 World Energy Outlook, the International Energy Agency predicted: "recurrent oil supply stringency later in the 1980's and thus . . . the need for constant attention to energy policy as a means of avoiding severe economic constraints."

The U.S. can take advantage of the current worldwide oil surplus to develop and implement a plan for an orderly transition to an alternate transportation fuel. Given the advantage of time, it can be accomplished without significant Federal government expenditures.

The American Automobile Association states, "the facts speak for themselves; America not only needs, but must have, one or more alternatives to crude-oil based transportation fuel."

WHY METHANOL

Methanol or methyl alcohol can be produced from a wide variety of feedstocks including coal, biomass, natural gas or any carbon containing substance including municipal wastes.

Methanol has the following unique advantages over gasoline:

Improved Security of Supply.—Although most domestic methanol is currently made from natural gas, the United States' abundant coal reserves could provide security for hundreds of years.

Environmental Benefit.—The Environmental Protection Agency has noted that "Methanol is a very promising alternative transportation fuel from both environmental and economic standpoints." From the standpoint of regulated emissions methanol is superior to gasoline and diesel fuels. In a high pollution region, methanol use instead of gasoline could actually improve air quality.

EPA also speculates that because methanol is so clean burning, mass produced methanol cars might actually be less expensive than gasoline vehicles, because much expensive pollution control equipment would not be required.

Economy.—The Bank of America has the largest methonal fleet in the country. Their test results monitored by the California AAA show methanol to have a 6/10 cent per gallon per mile savings over gasoline. Methanol's MPG isn't as good as gasoline, but it costs only two thirds the price of gasoline, thus resulting in a savings.

Safety.—Methanol has a higher flash point than gasoline which accounts for its use for many years by Indianapolis 500 cars. The drivers believe it is safer.

Mr. HOLLAND [presiding]. We thank you, Mr. Sharp, for your testimony.

Mr. Gibbons?

Mr. GIBBONS. Mr. Sharp, what you are asking for is the same exemption we already have from the fuel tax for methanol; is that right?

Mr. SHARP. Not really. At the present time what we are asking for is a complete exemption for methanol. If methanol is made from biomass it currently enjoys the present tax credit. However, you wouldn't use methanol today in a blend of more than 3 percent. You would not use it in a 10- to 90-percent blend. Most cars would be disabled by its use within a reasonable period of time.

You can use 10-percent ethanol blends in existing cars without suffering damage. So the reality is, we are talking about, near neat alcohols—in other words, at least 85 percent pure. It costs today about $600 to $1,200 to modify an automobile in order to operate on virtually pure alcohols such as methanol.

Mr. GIBBONS. Do the Brazilians use ethanol or methanol?

Mr. SHARP. Ethanol, cane sugar as a base, the product from which they manufacture it.

Mr. **Gibbons**. The product you are talking about, does it contain a tariff? We put a tariff on the Brazilian alcohol or ethanol and it was a mistake to do that. I believe Mr. Vanik convinced me of that in a weak moment. We have all regretted it ever since.

Mr. **Sharp**. The tariff is on methanol if it is used as petrochemical feedstock.

Mr. **Gibbons**. No. For any kind of use.

Mr. **Sharp**. I was under the impression——

Mr. **Gibbons**. What I was getting around to is would you object if we repeal that tariff?

Mr. **Sharp**. We had testimony before our committee suggesting it would be a positive thing to repeal that tariff.

Mr. **Gibbons**. As I say, we made a mistake. I think it ought to be repealed. What you are telling me, as I understand it, is that you don't disagree with the repealing of it?

Mr. **Sharp**. That is certainly my tentative judgment.

Mr. **Gibbons**. One of the arguments—the argument goes that you really are never going to develop an ethanol use in this country unless you get some product around to use. You have to build a market. After you have a market built, you can go ahead and build the distilleries to make the product. We can't get started because nobody wants to build one where there is no market and there is no market because there is none available. So we sort of have done ourselves in by protecting any importation of Brazilian ethanol.

Mr. **Sharp**. In part that may be true. At this moment, and this could be a temporary phenomenon in the marketplace, we do have a surplus of domestically produced methanol. Its use as a transportation fuel is waiting because of the problems of distribution. You don't want to go out and buy a car unless you know exactly where you can fill up.

The State of California is trying to solve that problem. The State is buying a fleet of some 400 methanol-run cars and actually establishing the methanol stations in order to push forward in the methanol use.

Mr. **Gibbons**. What do you make methanol out of?

Mr. **Sharp**. Presently the supply is primarily coming out of natural gas. The real long-term potential for this country, where it would be very useful to us in terms of energy security would be to make it out of coal, which clearly can be done.

Mr. **Gibbons**. Then maybe I could get support out of your committee for my maximum State tax on coal; is that right?

Mr. **Sharp**. As the gentleman knows, I was one of the original sponsors when the issue first came up of trying to restrict the business of the States running away with their taxes on——

Mr. **Gibbons**. Are we going to get any action on that?

Mr. **Sharp**. I would like to be able to promise the gentleman that.

Mr. **Gibbons**. I am not demanding that. I would like to be able to demand it, but I respect the gentleman and know I can't.

Mr. **Sharp**. I would as chairman like to be able to demand a lot of things of the majority on my committee. However, I find they all have an individual vote. We try to do pretty close nose counting on those kind of questions. Personally, I find that not taking a vote on that helps at this point to keep the heat on those State legislatures that every year bring up this issue and want to go forward, in Wyoming to match Montana, for example. We try to bring what pressures we can to stave off further ill.

We have not been successful yet in developing a consensus on a national policy on how to restrict this particular tax. The question that arises is what to do about oil and natural gas.

Mr. **Gibbons**. We have already pretty much done it on oil and natural gas through the windfall profits tax, to some extent. We don't have any States really trying to do that as they have on coal.

Mr. **Sharp**. I share your view on that. There are others on the committee who argue——

Mr. **Gibbons**. Who are less well informed, let's put it that way.

Mr. **Sharp**. I hate to criticize one of my committee members.

Mr. **Gibbons**. Thank you very much. Always a pleasure doing business with you.

Mr. **Holland**. Any other questions? Mr. Heftel?

Mr. **Heftel**. Thank you, Mr. Chairman.

Mr. Sharp, until this morning, I didn't realize what a great job of education that you and others have ahead of you trying to convince people of why methanol should have an exemption from tax. One of our members used the terms "methanol" and "gasohol" interchangeably. The Secretary of Transportation, when asked about methanol, had to defer, along with his staff, for some answer in the future after they investigated the matter. He did not come informed at all.

I say this not as a criticism but as a very serious observation, that without education we are going to have a very difficult job of convincing people that there is a rational security reason and an economic reason for encouraging methanol as totally distinguished from gasohol or almost anything else we want to talk about. The fact is that you have the $600 to $1,200 a car additional cost, so nobody wants to produce the methanol until the cars are equipped; nobody wants to produce the cars until the methanol is available.

I assume you covered the hundred distribution points that are going to be established in California?

Mr. **Sharp**. I just mentioned generally California has a program in which they are trying to promote methanol use.

Mr. **Heftel**. They are going to be the first real example of how it could be moved forward. Of course, I am just delighted at the leadership you have shown and your presence today. But, I want to share with you a concern that until there is a better understanding of this issue, it may just fall by the wayside along with gasohol. Some of the testimony and some of the remarks so far have indicated that a lot of people want to either change or not continue the gasohol exemption from the Federal tax on the theory that because those people are using the roads, they should pay for it, and that energy conservation isn't anything to spend time talking about because the Secretary of Transportation made it very clear that they didn't care to talk about the subject and the administration doesn't care to talk about it.

Mr. **Sharp**. I hope you will continue the existing exemption for what is known as gasohol. Let me suggest to you that the philosophy of those that use them ought to pay for them is one I certainly subscribe to. Our proposal is the presumption that this is not a forever relief program from this taxation. It is a temporary one in which we suggested two possible ways to cap it so once it has its stimulus effect of somebody using it, you phase back in the whole tax and everybody is paying their fair share. It is to try to find a technique. Frankly, if it doesn't work it won't cost the Government anything, or very minimal in the 5 years or so.

But if it does work, it could, in fact, have a great potential effect. I must tell you that you mentioned there is a real education that needs to be going on. We are in the process of trying to write a report. We had not anticipated that the Congress would be dealing with this, as you perhaps didn't anticipate either with the gasoline tax here all of a sudden. We decided when this window opened we ought to come forward at this point.

But I hope the committee will see fit to act now. If it does not, I hope at least as a minimum people will begin to understand there is this potential here, and it will be well worth the Ways and Means Committee examining at a later point.

Mr. HEFTEL. Thank you very much.

Mr. GUARINI. Phil, would there be sufficient benefit, gearing up, distribution, education, everything that is involved in the public using methanol?

Mr. SHARP. That is hard to say. I think it would be more realistic to have a longer term period, 6 to 10 years or something of that sort. I don't think anybody can answer that question. I do think one of the quick reactions it would have is an educational one. It would attract those who are marginally thinking about this, whether it is investors, and there are private firms considering whether or not it is worth their getting involved in a fleet of cars in which you have central filling up of the tanks already. There has been some discussion of that.

That is what California is really trying to encourage, not only the State operation but some private fleets to do the same thing. So I think it could have a positive impact. Obviously it would be better if all of us had a greater, purer knowledge than I think we will ever have as to what the length of time will be.

Mr. HOLLAND. Mr. Bailey?

Mr. BAILEY. Thank you, Mr. Chairman.

Phil, very quickly, Mr. Heftel raised very important questions. As far as methanol is concerned—correct me if my layman's science reading is wrong—we are essentially talking about an alcohol like ethanol. Could you give us a little information on the Btu equivalents, for example, comparing it to gasoline, et cetera?

My understanding is that the real key to methanol, what we really are potentially talking about, is an element of energy independence, potentially, for the country. Incidentally I think it is absolutely vital for investor confidence and a whole lot of other things in this country. We don't have a good energy policy.

If you could comment on the importance for that reason? Secondly, methane, for example, CH4, as a feedstock—is it a potential feedstock for methanol? Maybe your staff man would know.

Mr. SHARP. First of all——

Mr. BAILEY. I would like to add, if it is, I think we have to be careful to make the distinction with biomass sources, you are potentially talking about resources shared with either ethanol or biomass sources. For example, I may be mistaken, but there is a potentiality of waste usage for methane production which can be used as a feedstock for methanol. I may be mistaken on that. I am not sure.

Essentially we are talking about the use of coal reserves, energy independence, and a very, very hot burning fuel that offers great environmental advantages.

Mr. **Sharp**. I think your first question was about the Btu equivalency. It has only about half as many Btu's per gallon as gasoline. However, it gets almost as good a mileage. It is a very efficient fuel to be used. It is probably more efficient than is gasoline.

You mention the environmental qualities. It is less expensive to remove the regulated pollutants. In fact, EPA testified before us that you could probably reduce the cost of an automobile for this reason.

Mr. **Bailey**. You don't have the nitrogen emission problem if you are burning it in some kind of pure form. Apparently you would in a mix.

Mr. **Sharp**. We are assuming near pure but you probably will have some kind of additives. Most fuels tend to. Methane is the current feedstock for methanol in this country. However, we see the long-term potential coming from coal. That is where we really get our energy security.

Of course, methane is domestic, too. Coal could be the long-term feedstock for this. I think it is very important we keep that in mind.

Mr. **Bailey**. Thank you.

Mr. **Holland**. Phil, again on behalf of the committee, we welcome you. We thank you for your testimony today. It has been extremely helpful to us.

Mr. **Sharp**. Thank you.

Mr. **Holland**. At this time the committee would be pleased to hear from our colleague, Hon. Virginia Smith of Nebraska.

Welcome.

STATEMENT OF HON. VIRGINIA SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mrs. **Smith**. Mr. Chairman, I thank you and the committee for this opportunity to present my views on the proposed gasoline tax increase, and I want to tell you that yesterday some of us from the Congress, from districts that share the same concerns, had a meeting, and my good colleague from Kansas, Mr. Roberts, and my good colleague from Nebraska, Mr. Bereuter, are here at the table with me today. They were participants in the meeting with me yesterday.

There are two things the distinguished committee should consider in its discussion of the financing needs of the highway trust fund.

First, that the method of raising taxes be fair, and, second, that the revenue raised benefit primarily those from whom it is collected. A tax on gasoline consumption falls unevenly across the United States. Some States, particularly large rural States like mine, pay more per person under the present gasoline tax than other States do. This is because out in our country we are almost totally dependent on private transportation; we have long distances to travel; we have fewer people than other States, but they drive many more miles.

The staff of the Joint Committee on Taxation estimated the geographic distribution of several possible energy taxes. They concluded that regional disparities would be relatively large under a gasoline tax. They further estimated that Nebraska would pay a hundred percent—110 percent of the tax per capita nationwide while New York would pay only 73 percent, and Illinois, for example, would pay 97 percent.

The burden does not fall unfairly only on regional terms. Gasoline taxes are regressive, affecting low-income households more severely than high-income households. According to the 1971–72 Consumer Expenditure Survey, gasoline expenditures are 6.6 percent of the income for the tenth of the population with the lowest income and are only 2 percent of income for the tenth of the population with the highest income.

My point, Mr. Chairman, is that any tax increase to finance the highway trust fund should be equitably distributed among those deriving the benefits of the highways. Further, the revenue raised from the tax should be placed in the highway trust fund for the benefit of those who paid the tax. Any diversion of funds for mass transit purposes or things other than highway use violates the fairness principle. Should Nebraskans who have almost no public transportation system pay for the public transit systems of other areas of the country from which they will derive no benefits? I think not.

Proposals have been made by the administration and by others to create a new trust fund for public transit that would be funded by a portion of the gasoline tax. These proposals depart from the traditional use of highway tax funds.

I understand the need for public transit systems and the financing problems they have. I do not object to allowing States to use highway trust fund money for public transit systems if they desire to do so. But States should have the option.

I would suggest that instead of creating a new trust fund for mass transit, earmarking 1 cent of the tax increase for return to the States on a per capita basis for States' discretionary use. This would allow States to collect the tax they pay for purposes that best suit their needs.

The Nebraska Highway Commission has recommended to Secretary of Transportation Lewis that all funds from any additional gasoline tax go into the highway trust fund and that none be used for mass transit programs. I support their position.

Overall, Mr. Chairman, I think it best to take time to consider the proposals to raise the gas tax. I fear that if we rush into this in the lame duck session, the best interest of the taxpayers will not be served.

Thank you.

I would like to call on Mr. Roberts for any comments.

STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. I share the concerns of my colleague. I am in full support of her statement.

Mr. Chairman, I have the privilege of representing 58 counties out on the prairie of western and central Kansas. My district is larger than the State of Pennsylvania. You have heard that old story, you can't get there from here. That is the case in my personal instance because of deregulation and in some part our Federal transportation policy. It costs me more to fly from Dodge City to Wichita than somebody from New York down to Disney World.

I am not going to argue that point or take up this committee's time to go into that policy. But, in terms of bus transportation, railroad transportation, we have severe problems. In order to get the basic services, we have to travel by private convenience. We have a farm-to-market transportation system that is badly in need of repair.

I fail to see much in this bill that really does address that problem. I want to emphasize I am not saying this is an "us or them" situation or an either/or situation with the obvious need to improve our mass transit system all throughout the country.

It is just that I think if we went the route as suggested by my colleague and we used the current formula for the distribution, it would be much more equitable because my people say out of the nickle they are going to pay in the increased tax why they have to pay 20 percent of that into a mass transit fund which they will never use.

Could we not instead indeed send that money to the States and let them spend that money as they so choose? It is a matter of equity or fairness. I support the gentlewoman's suggestion.

Mrs. SMITH. Mr. Bereuter?

STATEMENT OF HON. DOUGLAS K. BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. BEREUTER. I am supportive of the statement delivered by my colleagues from Nebraska and Kansas. I am eager to support a 5-cent increase, in fact, during the lameduck session. I would like to say it is not a matter of them or us. We want to make sure as a minimum that the United States is served in both instances.

I think, therefore, that the definition that you use of mass transit is crucial. We certainly hope that the kind of definition that is ultimately established in this legislation will serve equally well the diverse kinds of means of serving the transit needs of people in nonmetropolitan areas, and especially sparsely settled parts of the Nation, like the Great Plains and the Rocky Mountain West.

We hope you will give that definition especially close attention and make it one that will serve all parts of the Nation.

Thank you, Mr. Chairman.

Mr. HOLLAND. The committee thanks the panel. I have the same concerns in South Carolina that you have in other parts of the country.

Mr. Heftel, any questions?

Mr. **Heftel**. I thank the witnesses for their testimony. I have no questions. Of course, in Hawaii, where we don't have mass transit, I have no problems understanding what they are saying.

Thank you very much.

Mr. **Holland**. Mr. Guarini?

Mr. **Guarini**. Coming from the Northeast, I would like to point something out.

I have the comparison of estimated payments into the highway trust fund, Federal aid apportioned from the trust fund over the years since 1957 through 1981. I see Nebraska in 1981 paid $52 million into the fund and received $27 million more than they paid in. For every dollar they gave back to the fund, they received $1.52.

Over the 20 or 30 years that we have had the trust fund, they actually received more money and accumulated more than they paid into the fund. So, by the testimony that was just given I would assume they would want to make a reimbursement to the U.S. Government or back into the fund.

If you want to have all trust fund money apportioned fairly, then I think the U.S. Government should be entitled to reimbursement. I say that respectfully.

Let me tell my chairman something so it doesn't look like I am only picking on the people who are testifying from Nebraska.

In South Carolina, in 1981 they paid $92 million into the trust fund and they received back $126 million, which is some $36 million more. I think some of these States that are large or that are more rural in character have many benefits where they have been partly subsidized by donor States of the other 50 States.

I don't think that we can complain about a problem in the Northeast either where people live very, very close together and they have a very serious mass transit problem. So, on two scores, I think there is a lack of sensitivity as to the problems you have got in congested areas where mass transit is very important which needs help.

I know New York City—and I don't come from New York, I come from New Jersey—is in very dire need in their subway system, which is virtually bankrupt. I feel that many of these larger States have been contributing more money than they are getting back.

When we look at the statistics, we ought to look at all statistics.

Mr. **Bereuter**. I would like to respond to that, if I may.

Mr. **Guarini**. I am sure now that I have attacked the Chair and our witnesses, I will be in between the volleys.

Mr. **Bereuter**. I thank the gentleman for his comments. I recognize the legitimacy of what he is saying. As a matter of fact, I frequently find myself giving some of the same arguments in talking to my constituents upon questioning, trying to present the rationale for us making a larger contribution to the urban mass transit needs of the more populous States.

I would simply say that anytime we are dealing with a relatively low population State that also happens to have very large geographic areas, as generally those in the Great Plains and Rocky Mountains do, we have an inordinately large number of bridges and miles of highway per capita.

Mr. **Guarini**. And dikes and irrigation that we don't have in New York City.

Mr. **Bereuter**. That is why we have the formula set up as we do. If we happen to come from the more continental climate areas of the north, we have the additional wear and tear on the road caused by changeable weather conditions.

I think the gentleman recognizes the validity of providing additionals to support on a per capita area for ourselves, and I do in suggesting that a straight per capita distribution of urban mass transit money is not really from my point of view, speaking only for myself, a reasonable view, either.

Mrs. **Smith**. May I further comment—and I appreciated the gentleman's thoughts—I agree fully with what my colleague has just said. I think the gentleman is looking at the 1980 chart, which I also have in front of me. This includes some interest money.

I have got the charts from my own State over the last large number of years, and we have gotten on an average of 90 percent of what we have paid in. I would be delighted to send the gentleman from Nebraska a copy of those charts for his perusal.

Mr. **Guarini**. The chart that we have here, which is dated May 1982, that has been presented to us, which is the entire accumulation of trust funds, shows that by a slight amount more—not significantly—that Nebraska has gotten a few million dollars more than it actually had given into the trust fund. In fact, the exact sum is about $32 million. So, Nebraska has not been shortchanged if the charts I am dealing with are correct.

Mrs. **Smith**. For the reasons my colleague stated, we have to have more money because we have more expenses. I would like to send you the charts from my own State.

Mr. **Roberts**. If I could respond to the gentleman, we will just have to get you out to Dodge City and have Miss Kitty sing you a song about our problems out in the farm country in terms of our production costs and in terms of food and fiber.

This is a national bill, national in scope. It is not my intent to imply we don't need help in terms of mass transit. I share your concerns. You have those needs.

But, in terms of my folks, we can't see how we are going to get there from here. Our farm-to-market system is in disrepair. If we were getting a fair price for our farm products—you mentioned the irrigation, the dikes, the dams, whatnot. All that goes to produce food and fiber for this country. But our prices are below the cost of production.

I have over 400 billion bushels of wheat in my district. We produce more than any State. We are delighted to feed you. It is just our farmers would like to receive more in price back than the bread wrapper in terms of the cost of that bread.

I think you have to look at what the purpose is of the national transportation system. Part of that is to distribute food and fiber all through this country. You are not going to do it unless we really address the needs of our rural transportation delivery system.

There is no question on a per person basis that we are going to come out on the long end of the stick. We just don't have that many people. But, what we produce is certainly of real benefit to the country, and, I suggest to the gentleman, to his consumers.

Mr. **Guarini**. I think what we are saying is the bottom line is we are all in this together. Our mass transit problem in the Northeast is your problem where you are and your problems concerning agriculture are basically our problems, too.

We want to be helpful and sympathetic toward each other. We can't really live in pigeon holes in this country. I think there are times we all have to give and take. That is what I am saying.

Thank you.

Mr. **Holland**. Being in the position of chairman, I would have to be somewhat restrained in response to my beloved colleague from New Jersey. I think the fact Nebraska, Kansas, and South Carolina get more, according to your charts, back than what we pay in is profound testimony to the quality of representation those States have in committees of Congress.

Second, in my own State I would have to say when the Federal Government spends money there, it gets so much more per dollar that that makes a big difference.

I don't know what the toll road situation is in New Jersey. I understand they have some of those things. People from my State passing through tell me that they have taxes extracted at the gates. They go into the coffers of the State of New Jersey.

On the other hand, when you pass through my State, you pay no tolls. The roads are free and clear, as they should be.

Mr. **Guarini**. That is because the State of New Jersey paid for all their roads themselves.

Mr. **Holland**. I would say the State of New Jersey has been quite lucky in its economic development, drawing heavily on the technology and intellectual power of the Southeast. The fact is, as Mr. Guarini said, this is a national problem, a national bill.

I don't like the notion of taking a user's tax, which our President says this is, from users of the highways and using it to build and repair and maintain subways. I don't know why they don't put a tax on subway tickets or something if it is going to be a true user's tax.

I intend to support in the committee the notion put forward by this panel that if we have a 1-cent tax extracted, then it should be given to the States. New Jersey can decide what to use it for and so can South Carolina and Nebraska.

That appears to be eminently fair. It is the same tax dollar. It allows some leeway. I will be happy to pay my penny a gallon and allow the State of New Jersey to use that money as it sees fit.

I think you would frankly be, if you think it over, inclined to allow our States to do the same thing.

Mr. **Guarini**. Than your States won't be advantaged by that better representation that was allowed to earlier because South Carolina will be getting less money.

Mr. **Holland**. As you know, I will be leaving. I have been quite expensive here. I will be saving the Government some money personally.

I thank the panel on behalf of the committee.

At this time we have Mr. Sabo.

STATEMENT OF HON. MARTIN O. SABO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. SABO. Thank you, Mr. Chairman.

On November 29 I introduced H.R. 7319 to impose an additional 10-cents-a-gallon tax on motor fuels. This proposal differs in several important ways from other gas tax measures currently under consideration.

This bill is based upon the realization that current road user taxes do not produce sufficient revenue to match the road and auto-related costs borne by State and local governments.

Most State and local governments currently subsidize road and auto-related public services from property taxes, income taxes, and sales taxes. H.R. 7319 is designed to shift more of the burden to road user taxes.

The 10-cents-a-gallon tax provided in H.R. 7319 would be applied at the retail level and the resulting revenue would be distributed within the State in which the sale took place. States would have the option of collecting the tax on behalf of the Federal Government and avoiding delay in obtaining the revenue. This option would also free the Federal Government of any collection costs.

Each State government would retain one-third of the funds and distribute two-thirds to its local governments on the basis of population. The bill allows the funds to be spent on road and auto-related public services on any public highway, road, street or bridge, not just the existing Federal aid highway system.

Up to half of the funds may be used for roadway construction, repair or maintenance. The funds do not flow through the Federal Highway Administration, and the bill does not provide for Federal regulation of the activities financed by the tax.

The deteriorating conditions of many of the Nation's roads need little elaboration. Failure to increase our investment in roads will in time impose heavy costs upon the economy in the form of slower movement of goods, higher fuel costs, higher vehicle maintenance costs, and greater losses of property and life due to accidents.

As bad as the deterioration of the physical condition of our roadways is, of equal concern to me is the inadequacy of policing of the roadways. The intoxicated and unsafe drivers, unsafe vehicles, and dangerous cargos which kill and injure tens of thousands of persons each year are a disgrace. Further, policing of roadways is normally paid for out of nonroad user taxes.

Consequently, H.R. 7319 provides that half of the funds must be spent on the maintenance of public safety on the roads. This is defined broadly to include, but not to be limited to, traffic safety and the maintenance of law and order, the training and equipping of traffic safety personnel, and the salaries of judges, prosecutors and other judicial personnel to the extent their activities deal directly with the maintenance of traffic safety or law and order on public roads.

Mr. Chairman, members of the committee, in my judgment this approach to the increasing of the Federal gas tax would make a great deal of sense. I understand the momentum behind the current 5-cent proposal which puts 4 cents into the highway trust fund, 1 cent into transit. My judgment would be we would have a vastly superior bill if instead of a 5-cent tax increase we have a 10-cent increase. Four or 5 cents allocated somewhat as proposed by the President, 4 cents into the highway trust fund, 1 cent to be used for transit. I would really suggest that the option be maintained to use those dollars for both construction and operation.

The transit needs really do vary from community to community in this country. Some with heavy construction demands or heavy capital demands; others with real demands for operating subsidies. I am fearful if we move more heavily in the area of capital subsidies, we are going to leave communities with large built-up stock of rolling stock and buses and no funds to operate them.

Five cents to be used in the approximate form that we defined in 7319, to be used by States and local communities, retained in those States, and allowing a portion of those funds to be used for the provision of public safety within those States.

The fact is that in most of our metropolitan areas—and I think most of our areas today—local property tax heavily subsidizes the use of the auto. A substantial portion of local police work is auto related. A substantial proportion of emergency service is related to the auto. A fair amount of tire work is related to the auto. We bear that entire burden on the local property tax.

H.R. 7319 would be an attempt to change that emphasis to say that the road user, a person who drives the automobile, should pay a proportion of that cost. So I would urge this committee, as you move to mark up the bill before you, to consider expanding the size of the tax, expanding, giving greater discretion to its use.

I would be happy to answer any questions.

Mr. HOLLAND. Any questions?

Mr. GUARINI. How much would that generate every year? The 10 cents would generate between $10 and $11 billion a year. It would all be marked trust fund?

Mr. SABO. No. It would all go back to the States. The State would be able to retain one-third, two-thirds reallocated to its local communities. Of the total amount going back to the States, half could be used for construction projects, the other half for what we label as public safety, meaning police work that is done in relationship to the auto, emergency services, court time that goes to handle traffic cases, a broad definition of public services provided by State and local communities that are auto related.

Mr. GUARINI. You subscribe, then, to the fact that States should get back what they put in?

Mr. SABO. Not in total. I think we should do a combination.

Mr. GUARINI. You don't want me to trap you in that, do you? I do have the Minnesota statistics here. They are even better than the ones testifying before you.

Mr. SABO. I suggest a combination. You have a portion of the gas tax, it stays in the State where it's collected. I think there's merit to a combination of the two. I think the politics of it are such that while we say States can increase the gas tax locally, there are real political limits to what you can do in an individual State depending upon what your border States do. I think there is great merit for the gas tax imposed on a national level but some of it returned to the States simply on the basis of collection.

On the other hand, I think there is a need for a continuation of a nationally collected tax and one that is apportioned on a formula basis.

Mr. GUARINI. Do you think trust funds work better than general revenue funds? Do you subscribe irrevocably to the concept of trust funds for airports, highways, et cetera?

Mr. SABO. No; as a matter of fact, the bill I introduced would not have the funds go into the trust fund. It would simply return to the State where it was collected. It would not go through as a trust fund. It would not eliminate the trust fund. There is still a need for that.

Mr. HOLLAND. Mr. Bailey?

Mr. BAILEY. I would like to compliment you on some of the ideas you have presented, basically on the formula and how money is spent. Some of the discussion we heard earlier here between some of the members concerning allocation could be expanded to also include burdens.

There are certain portions of the country, for example, as far as what interstate commerce means, which find their tax bases supporting extremely expensive maintenance and capital improvement burdens that really benefit the Nation as a whole but come out of regressive State tax bases that end up providing a road system which really is underfinanced.

Apparently under your idea you recognize the State and local need for maintenance and improvement which really has not always been recognized on a national basis. I would just like to compliment you for that. I don't know if your idea would go through in that form, but some of the concepts you have introduced ought to be recognized in this legislation. We have been many, many years getting the Federal Government to recognize some of the allocation formulas in terms of how money is spent, on capital versus maintenance type projects, and you made some very cogent remarks in that connection.

Second, I think there has not been enough of a debate surrounding the burden on commerce issue, because you have roads in certain parts of this country that carry more of the tonnage and more of the traffic and have greater weather problems. The topography provides maintenance problems which are not faced in other parts of the country. These place an incredibly difficult burden on local taxpayers and the Nation really benefits from those things. We don't recognize that in our tax formula, in our allocation formulas, or in our spending patterns and regulations down here. I think you are aiming in the right direction. I hope somebody listens to you.

Mr. HOLLAND. Mr. Schulze?

Mr. SCHULZE. No questions.

Mr. HOLLAND. Marty, thanks again.

Mr. SABO. Thank you. I appreciate your taking this time.

Mr. HOLLAND. At this time we will hear from a panel composed of Mr. Philip P. Friedlander, Jr., Mr. Donald G. Brotzman, Norman Sherlock, Jerry Feldman, and Robert S. Reebie.

Gentlemen, if you have prepared statements, they will be placed in the record in their entirety, unless there is objection.

Please proceed in the order in which your names were called.

STATEMENT OF PHILIP P. FRIEDLANDER, JR., EXECUTIVE VICE PRESIDENT, NATIONAL TIRE DEALERS & RETREADERS ASSOCIATION, INC.

Mr. **Friedlander**. I do have a prepared statement which I would like to submit for the record.

My name is Philip P. Friedlander. I am executive vice president of the National Tire Dealers & Retreaders Association, a national nonprofit trade association representing approximately 5,000 independent tire dealers and retreaders located in 50 States who are engaged in the wholesale and retail distribution of automobile and truck tires, the retreading of tires, and the sale of related products and services.

We are dismayed at the proposal which demonstrates an excessive increase in the Federal excise tax on heavy duty truck tires and an incredible proposal to raise the excise tax on tread rubber across the board from 5 to 25 cents per pound.

This, Mr. Chairman, gentlemen, is a piece of tread rubber used for a passenger tire. This is a piece of precured rubber used for a truck tire. This is raw material. How can anyone say that this is a user fee?

The proposal on the excise tax on tread rubber at 25 cents a pound is equal to a 400 percent of the cost increase of this—in this tax.

This morning I had the opportunity to listen to the Secretary of Transportation discuss some facts. Mr. Chairman, I would like to clarify some matters. Some of the information which he furnished to this committee was unfortunately not totally correct.

There were over 43 million passenger treaded tires sold in the United States during 1981. That is total retreads. Thirty million of these were passenger and light truck, 12 medium or medium and heavy truck retreads. In addition, there were 1 million aircraft, off the road, and industrial specialty retreads. It indicated that this tax was mainly on the truck. That is simply not true.

Who is the processor of the retreaded tire? Three thousand independent small businessmen from coast to coast, who currently employ 45 to 50,000 people, whom this tax bill as proposed could possibly jeopardize to the extreme if it was passed.

How much revenue does the current tread rubber tax bring into the Government? Only $27 million. And who are the purchasers of the retreaded tire? The man or woman earning under $25,000 a year. He is 18 to 34 years of age and he probably does not have a college education. He is an average type person who is trying to get along in this economy.

This proposal of a 400-percent increase in the tread rubber tax on passenger sizes and the corresponding elimination of the new tire tax means a drop in the differential between the new tire and retread of 15 to 20 percent in the retail pricing, not 5 percent. What we are talking about is on an average size, almost $5 difference between what they are now and the differential, just by the drop of the passenger new tire and this increase on rubber in the average passenger tread rubber—retread tire.

How is the retreader in this market going to be competitive against a low price new tire if this Government wants to force an incredibly huge tax increase?

Our recommendation has been for some time that instead of raising the excise tax on tread rubber, which only amounts to $26 million, that you stimulate the recycling process and that you totally eliminate that tax. That is a proposal we bring to you today.

Now I would like to in the short time I have refer to another area of a problem which has been referred to to some extent earlier today by others. This problem for us is the cost of carrying the truck tire tax inventory. This proposal as set forth will result in significant administrative and financial burdens on independent dealers who hold tires in inventory and who must collect the tax from the consumer.

A delayed payment plan would be consistent with the current administration's policy and would not create undue inventory cost hardships on the small business retailer. It would produce no adverse economic impact on Treasury.

We had a special report prepared for us by the Arthur Andersen Co., which underscored the inventory carrying cost problem created by the current payment schedule and the present consumer purchasing practices. This study supported the premise asserting that the average inventory turnover for truck tires is about 148 days. The Andersen report added:

"If the current carrying charge of the tax were a median of 7.5 percent of the inventory cost, if the tax is doubled it would be 14 percent of inventory cost; if tripled, 20 percent of inventory tax."

The annual carrying cost for the tax proportion of each $1 million of inventory would go from the current cost of about $11,000 to $27,500 if the current tax proposal is passed. A 1981 study by Dr. Robert Cox, Dean of the College of Business, University of Florida, indicated that the average independent tire dealer earned $28,900 in net operating profit. It would be inequitable to impose on tire dealers the burden of financing inventory costs of a so-called user fee which would approach 100 percent of the average dealer's net operating profit.

We urge that Congress should adopt legislation which would provide for a delay in the payment of the tax by the dealer to the manufacturer for 120 days after the last day of the month in which the tire is sold.

Mr. Chairman, we obviously present our position to Congress in the matter of this tread rubber tax as a matter of survival,

Thank you.

[The prepared statement follows:]

STATEMENT OF PHILIP P. FRIEDLANDER, JR., EXECUTIVE VICE PRESIDENT, NATIONAL TIRE DEALERS AND RETREADERS ASSOCIATION

My name is Philip P. Friedlander, Jr., Executive Vice President of the National Tire Dealers and Retreaders Association, a national nonprofit trade association representing approximately 5,000 independent tire dealers and retreaders located in fifty states who are engaged in the wholesale and retail distribution of automobile and truck tires, the retreading of tires and the sale of related products and services.

I appear before you to express concerns and reservations that we have regarding the President's proposals for financing the federal highway program. To be specific, we challenge the attempt to raise the manufacturers federal excise tax on heavy duty truck tires from 9.75 cents per pound to 25 cents per pound and to raise the excise tax on tread rubber from 5 cents per pound to 25 cents per pound. Any tax increase would mandate a delayed payment plan. We are quite frankly astonded that this Administration would propose a highway bill that could put thousands of small businesses out of business.

As an association comprised of small businessmen who are committed to and dependent on the automotive industry, the trucking industry, and the nation's transportation system, NTDRA is concerned with the Nation's economy and has historically supported the Highway Trust Fund and the pay-as-you-go or user fee principle for financing it.

We believe, however, that with respect to heavy duty trucks and to tread rubber that the proposal before this Committee was drafted without an awareness or understanding of its impact on independent truck tire dealers and on the nation's retreaders. It seems to be incongruous for the Congress to pass legislation which would result in a substantive adverse economic impact on independent tire dealers and could ruin the tire retreading industry when, simultaneously, this Congress expresses sincere concern with measures to aid and strengthen the small business community.

A brief history of excise taxes on tires will help frame the context of the current proposal.

Excise taxes were initially levied on tires and tubes in 1919, primarily to produce revenue. During World War II the tax rates on tires and tubes were raised to reduce the use of rubber where it was not essential for defense purposes. These excise taxes were retained after the War as a source of revenue. In 1956 tread rubber was subjected to an excise tax for the first time as a part of the Federal Highway Program. The taxes on tires for highway use were increased. The purpose of this additional tax was obviously to produce revenue to support the Highway Program.

NTDRA is in full accord with the supposition that this nation needs an improved and adequately maintained interstate highway system. Increased automobile and truck registration and use necessitated this recognition. The highway system is vital to the military forces, to each motorist, to every trucker, and to every citizen.

It thus becomes necessary to develop a wise program of payment of such a highway system. Given that premise, we question the wisdom of singling out the user of large truck tires as a principle instrument of taxation. The trucker and the supplying tire dealer are specifically named to bear a heavy and burdensome load.

NTDRA opposes the proposed tax on heavy duty truck tires for the following reasons:

(1) The proposed increase from 9.75 cents per pound to 25 cents per pound is clearly excessive.

(2) Because of economic conditions resulting in slow inventory turnover rates, dealers would be forced to finance increased inventory costs for longer periods of time.

(3) At a time when the nation's trucking industry is experiencing severe economic hardships, NTRDA questions proposals which would substantially increase various taxes levied on truckers.

(4) If the philosophy of this proposal is indeed a user fee, then Congress should support language which would stipulate that the tax is collected once the user purchases the particular product.

(5) It is a gross fallacy to assume that all truckers indeed use the Nation's interstate system.

Each of these points is discussed below:

1. The proposed increase from 9.75 cents per pound to 25 cents per pound is clearly excessive.

NTDRA has historically supported the Highway Trust Fund and the philosophy of the financing of that fund. Assembled in annual convention in September 1982, NTDRA members adopted a resolution which in part stated a support of the fund and a tentative support for reasonable increases on the tax on tires with revenues directed into the fund. We believe that given the current rate of 9.75 cents per pound and proposal to increase the FET by a significant percentage per pound would be unreasonable. Certainly the current proposal to increase the tax by more than 15 cents per pound is unreasonable and should be withdrawn.

2. Because of economic conditions resulting in slow inventory turnover rates, dealers would be forced to finance increased inventory costs for longer periods of time.

To the tire dealer the proposed tax increase is especially serious because he must pay for these taxes when he pays his supplier for the tires. He thus is forced to materially increase his capital investment without a source of raising such capital. Such a proposal would result in significant administrative and financial burdens on small independent distributors who hold the tires in inventory and who must collect the tax from the consumer under a variety of payment plans.

A November 1982 Arthur Andersen and Company report to the National Tire Dealers and Retreaders Association clearly revealed that the proposed rate on the federal excise tax on truck tires under the current IRS tax collection schedule would result in extreme carrying cost economic hardships for both the manufacturers and the distributors of truck tires.

The Arthur Andersen report underscored the inventory carrying cost problem created by the current payment schedule and present consumer purchasing practices. An NTDRA study supported this premise, asserting that the average inventory turnover for truck tires is 148 days. The Andersen report added, "* * * if the current carrying charges of the tax are a median 7.5 percent of inventory cost, if the tax is doubled it would be 14 percent of inventory cost, and if tripled, 20 percent of inventory cost. The annual carrying costs for the tax portion of each $1 million of inventory would go from approximately $11,000 to $34,000 if the tax is tripled."

A 1981 study prepared by Dr. Robert G. Cox, Dean of the College of Business Administration, University of South Florida, indicated that the average independent tire dealer earned $28,900 in net operating profit. In an industry already enduring severe economic hardships it would thus be inequitable to impose on small distributors the burden of financing inventory costs of a so-called user fee which would approach 100 percent of the distributor's net operating profit.

A substantial increase in inventory financing charges, to be borne by the retailers, constitutes a legitimate threat to the viability of these small channel members in the tire industry. The NTDRA thus strongly recommends that the current tax collection schedule be adjusted to alleviate problems that would occur if the excise tax is increased.

3. At a time when the nation's trucking industry is experiencing severe economic hardships, NTDRA questions proposals which would substantially increase various taxes levied on truckers.

American Trucking Association figures indicate that truckers are currently operating on a 0.1 percent profit margin (net income after taxes) as opposed to an historical 3 percent. Their return on equity is now running about 1 percent as opposed to an historical 13 to 15 percent.

Clearly the American trucking industry is experiencing severe economic hardships. Given the current economic environment, a proposal that will, in effect, punish truckers raises questions and concerns.

4. If the philosophy of this proposal is indeed a users fee, then Congress should support language which would stipulate that the tax is collected once the user purchases the particular product.

Accordingly, if DOT proposes to increase the federal excise tax on truck tires, the NTDRA urges the incorporation in the legislation of a delayed payment program. DOT is using the term user fee to describe the tax increase, and most of the other fees involved will be collected when the user in fact purchases the particular product. Thus a delayed payment plan would be consistent with the Administration's policy and would not create undue inventory cost hardships on the small business retailer and, because the Highway Trust Fund is a separate segregated fund, it would produce no adverse economic impact on Treasury.

The NDTRA thus supports and is working for Congressional approval for a modified tax payment schedule which recognizes and responds to the inventory problems inherent and the tax collection problems of small business tire distributors throughout the United States. The Association supports the adoption of a federal excise tax payment schedule which would delay the payment of the amount of the tax by the dealer to the manufacturer to 120 days after the last day of the month in which the tire is sold.

We propose the following wording to the Committee on Ways and Means for consideration:

A BILL To amend the Internal Revenue Code of 1954 to adjust the time for payment of amounts attributable to manufacturers excise tax on tires and tubes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. IN GENERAL.—Section 6302 of the Internal Revenue Code of 1954 (relating to mode or time of collection of taxes) is amended by redesignating subsection (d) as subsection (f) and by inserting after subsection (c) the following new subsections:

"(d) TIME FOR PAYMENT OF TAX AMOUNTS BY RETAILERS.—Manufacturers, producers and importers of tires and tubes subject to the tax imposed by Section 4071(a) shall identify separately the amounts attributable to such taxes on their invoices or on separate invoices to their customers (other than retail customers). Such amounts shall be due and payable from such customers 120 days after the last day of the month in which the sale to such customers occurs.

"(e) Special Rule for Certain Related Parties.—For purposs of subsection (d), the 'term manufacturer, producer or importer' shall include a wholesaler or distributor that is related (as that term is defined in Section 267(b) to a manufacturer, producer or importer from which it buys tires or tubes."

Sec. 2. Repeal of Tax on Tread Rubber.—Sections 4071(a)(4), 4071(d)(3) and 4072(b) of the Internal Revenue Code of 1954 are repealed.

Sec. 3. Effective Date.—

(a) The amendments made by Section 1 of this Act shall apply to tires and tubes sold during or after the second month beginning after the date of enactment of this Act.

(b) Section 2 of this Act shall take effect 30 days after the enactment of this Act.

The proposed legislation is very simple and straight forward. Section 1 would amend Section 6302 of the Internal Revenue Code by requiring manufacturers, producers and importers to specifically identify on their invoices to their customers the amount attributable to Federal excise tax. As a practical matter, tire manufacturers currently do this. The break out of the federal excise tax amount could be done on the invoice which describes the transaction or on a separate invoice. The amounts attributable to this tax would not be due and payable from the dealer to the manufacturer until 120 days after the last day of the month in which the sale occurs. This provision would permit the tire dealer to collect, on average, the amount of the federal excise tax from his customers, the end users of the tires, at approximately the same time at which he is required to pay these amounts back to the tire manufacturer. Under this system, the independent tire dealer would not have to finance the amount of the federal excise tax between the time that his bill is due to the tire manufacturer and the time the tires are actually sold to the end users.

You will note that this amendment would not apply in situations in which the tire manufacturers or importers sell directly, on a national account basis or otherwise, to an end user, such as a trucking firm.

The proposed Subsection E to Section 6302 would add a special rule for related parties so that the intent of the legislation could not be subverted by a manufacturer or importer selling to a wholly-owned sales subsidiary, for instance. Subsection E provides that the benefits of the 120 day delay do not accrue when a sale is made to a related party.

The second major feature of the bill is the repeal of the federal excise tax on tread rubber. Tread rubber is a raw material which a retreader uses in the manufacturing process. Tread rubber is not an end product. We do not believe that it is appropriately subject to the federal excise taxes. Section 2 of the proposed bill would repeal the tax contained in Section 4071(a)(4) as well as Section 4071(d)(3) repealing the tread rubber tax in 1984 and the definition of tread rubber found in Section 4072(b).

Section 3, setting the effective date of the legislation, provides for a lead time so that those in the stream of commerce can alter their current practices to conform with the new law.

We believe that these provisions are equitable, easy to administer and easy to implement. We urge the passage of this measure.

In keeping with the philosophy of a user fee, NTDRA supports legislation, H.R. 2925, introduced by Congressman John J. Duncan (R-TN) to amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes and tread rubber. Senator John Glenn (D-OH) has introduced a companion bill, S. 1496, in the Senate. The bill would alter the current FET payment schedule, making the tax due and payable 90 days after the last day of the month in which the manufacturer, producer, or importer of articles subject to the tax sells such articles. Treasury has not taken a public position on the proposal.

5. It is a gross fallacy to assure that all truckers indeed use the nation's interstate system.

The theory in imposing such a heavy levy against the users of large trucks is to establish a means of collection from those who benefit the most from the nation's interstate system. There are numerous fallacies in such a theory. There are approximately 25,000 communities in this country which are almost completely dependent on trucks for their needs. They will be impacted by this proposed larger truck tire levy. In large mid-western states, 65 percent of the cattle are moved to the market by trucks. Similarly, 85 percent of the nation's urban population receive their milk from the country by truck. Trucks delivering milk, soft drinks, lumber, packages and the like who confine their options to the city will have to pay multiplied taxes for a highway program that will benefit them no more than it will an average citizen.

This Nation moves on rubber. Burdensome and oppressive taxes to the trucker and to the tire dealer could mean a breaking down of our transportation system. Many truckers and tire dealers will simply go out of business.

However, no part of this tax proposal is more discriminatory and unfair than the suggestion to increase the tax on tread rubber from 5 cents per pound to 25 cents per pound. Currently strip rubber sells for approximately 56 cents per pound and pre-cure rubber sells for around $1.24 per pound. Such a philosophy of taxation demands a penalty for progress and conservation. If such an increase were enacted, the retreader could soon find his reasons for existance removed and ultimately lose his investment and his business.

Actually a tax on tread rubber is quite unrealistic and we urge Congress to in fact eliminate the current federal excise tax of 5 cents per pound. We sincerely seek your decision to eliminate any tax on the operation of any retreading establishment and thus give these small businessmen some chance to survive under today's highly competitive conditions.

NTDRA supports the elimination of the federal excise tax on tread rubber to be used in the retreading process for the following reasons:

(1) Tire retreading recovers great amounts of solid waste.

(2) The elimination of the current FET on tread rubber would have a negligible effect on the Treasury..

(3) Both the Department of Energy and the Environmental Protection Agency have defined the retreading of tires to be the recycling of tires.

(4) The Department of Energy and the United States Congress recognize a need to stimulate the retreading industry.

(5) Tire retreading is a long-standing recycling industry, conserving oil and rubber.

(6) Retreading represents a practicable and meaningful way that small business people can aid the country by undertaking a major recycling program.

(7) Tire retreading recovers substantial amounts of rubber polymer.

(8) An increase to the FET on tread rubber discriminates against the less affluent segments of society.

Each of these points is discussed below:

1. Tire retreading recovers great amounts of solid waste.

Roughly 175 million new tires and 50 million retreads were sold in the replacement tire market in 1979. That means approximately 225 million worn tires were taken out of service and replaced with either a new or retreaded tire. In addition, new cars, trucks, and buses, were equipped with about 62 million new tires in 1979—51 million passenger tires and 11 million truck-bus tires. On average, scrapped automobiles amount to about 70 percent of those sold, and scrapped trucks and buses amount to about 40 percent of sales. Therefore, about 36 million passenger tires and 4 million truck-bus tires were taken out of service on scrapped vehicles. In total, approximately 260 million tires were potential candidates for disposal as solid waste. One can assume that 40 million to 50 million of them will be retreaded—15 percent to 19 percent. An additional 10 to 15 percent of the worn out tires will be used for other productive purposes such as reclaimed rubber for recycling into new rubber products, fuel, breakwaters and artificial reefs, dock bumpers, play ground equipment, roadside impact absorbers, and construction materials. The remaining 70 to 75 percent of the worn out tires, about 180 million, must be disposed of in non-productive ways—mainly in landfills. Based on our knowledge of the industry, we estimate oil consumption at about 25 gallons per hundred weight of tires produced—about 20 gallons for the materials and five gallons in the manufacturing of tires. The total weight of the 180 million tires which were non-productively disposed of in 1979 was approximately 7 billion pounds, representing the consumption of 1.75 billion gallons of oil—40 million barrels. Forty million barrels of oil were simply thrown away. This solid tire waste must be recycled.

The 650 million plus pounds of tread rubber consumed in the production of the 50 million retreads sold in 1979 provided the equivalent service of 2.3 billion pounds of new tires. At 20 gallons per hundredweight of tires, the oil savings from raw material production alone was 330 million gallons—more than 20 thousand barrels per day. Additional energy savings are realized during the manufacture of retreads versus new tires. With the current product mix of passenger, truck and other retreads, the average oil savings in raw materials alone for a retread over a new tire is about seven gallons per tire—a 70 percent savings. Retreading is recycling of a solid waste; it saves energy; and Congress should give consideration to eliminating the federal excise tax on tread rubber to increase the production of retread tires.

2. The elimination of the current FET on tread rubber would have a negligible effect on the Treasury.

The current tax on tread rubber generates less than $30 million per year for the Highway Trust Fund. In its proposed package, DOT tried to eliminate some of the current taxes that raised relatively lower revenue levels which are difficult to collect. Given that philosophy, certainly Congress should consider eliminating a tax on a raw material used by small businessmen in a national recycling program.

3. Both the Department of Energy and the Environmental Protection Agency have defined the retreading of tires to be the recycling of tires.

NTDRA concurs with the findings and philosophy of the United States Department of Energy in its recently completed final report, *Industrial Recovered Materials Utilization Targets for the Rubber Industry,* that "retreading is the most obvious form of tire recycling" Book II (p. II-55). The document was prepared by Hittman Associates, Inc. under the direction of the Office of Industrial Programs, Office of the Assistant Secretary for Conservation and Solar Energy, United States Department of Energy. To quote from the introduction, "The analysis and determinations indicated in this document have been used as a basis for recovered material utilization targets for the rubber industry. These targets are required to be established by Section 374A of the Energy Policy and Conservation Policy Act." Thus in the most recent instance in which a federal agency has had to determine Congressional intent as it relates to retreading, it was clearly defined to be recycling.

The Environmental Protection Agency has long recognized retreading as an effective means of resource recovery and reducing solid waste. In 1973, EPA Contract No. 68-1-2906 was awarded to Smithers Scientific Services, Inc., to study the feasibility of requiring the federal government to use retreaded tires. The introduction to that report states: "More than five billion pounds of discarded tires end up as solid, municipal waste every year. This represents about 1.5 percent of the total solid waste disposed of annually * * * Obviously, one way to reduce this solid waste problem is to increase the percentage of tires being retreaded * * * A second benefit to be derived from the increased recycling of tires by retreading will be a reduction in petroleum consumption. Industry sources have estimated that it requires seven gallons of crude oil to make an average passenger tire. Five gallons as raw material feed stock, and two gallons to supply the required energy."

Because two agencies of the Federal Government are encouraging the increased production of tire retreads, Congress should eliminate the FET on tread rubber to further stimulate this struggling industry.

4. The Department of Energy and the United States Congress recognize a need to stimulate the retreading industry.

Because it sees the retreading process as a recyling process, the Department of Energy has taken an active leadership role to insure an increase in the number of retreaded tires. The retread industry has had to overcome numerous obstacles over the past few years, and industry figures project an 11.4 percent decrease in sales in 1980 as compared to 1979. It fact, the number of tires that have been retreaded has decreased yearly since 1974. In the DOE report previously mentioned, that agency calls on the Government to provide the necessary stimuli to the retreading industry to satisfy a spurring demand for retreaded tires (pp. IV 1-IV 12). With the endorsement of the Treasury Department, Congress passed legislation (H.R. 3317) and on December 24, 1980, President Carter signed into law (PL 96-598), a measure to aid the retreading industry. The new law provides for credits of refunds of the manufacturers' excise tax on tread rubber where tax-paid tread rubber is wasted in the retreading process, used in the retreading of tires that are exported, sold to State or local governments, sold to nonprofit educational institutions, or sold as supplies for vessels or aircraft. It also modified the statute of limitations so that a credit or refund of the tread rubber can be obtained for a period of one year after the warranty or guarantee adjustment is made. Senator Robert Dole (R-KS) said in the Federal Register on October 1, 1980, that this legislation was needed to correct inequities imposed on retreaders to stimulate the industry (S. 14033).

In general, financial incentives are the most efficient mechanism to stimulate a market. Retreading, particularly passenger tire retreading is an industry which is experiencing financial difficulties. Competition from new tire industry is the main cause. The availability of inexpensive bias-ply tires which compete directly with retreads has made an adverse impact on profits, reducing the amount of cash reserves that could have been reinvested for equipment. The elimination of the FET on tread rubber would provide a new stimulus for reversing the recent downward trend in an energy conserving industry.

High and ever-increasing costs have also placed severe limitations on the growth of retreading. The foremost cost involves the collection of retreadable casings. As a result worn tires become a solid waste disposal problem rather than a partial solution to the problem of increased oil consumption.

5. Tire retreading is a long-standing recycling industry, conserving oil and rubber.

Tire retreading is a current and long-standing, as was seen especially during World War II, recycling industry. It is and has been a major program in the conserving of both oil and rubber. General industry figures reveal that in 1979 there were 50 million retreaded tires sold in the United States; of which 30 million were for passenger car use, 4 million for light trucks, 14 million for heavy-duty truck use and 2 million for aircraft, off-the-road, industrial-life trucks, motorcycles, and agricultural equipment. Sales of retreaded tires in 1979 were approximately $1.6 billion, and that figure is projected to increase to $1.9 billion this year. The collective snow tire market for the last six years, as an example, may well have been greater for retreads than it has been for new tires. Eliminating the FET on tread rubber could be a further stimulus in this area.

There exists a varying degree of acceptability of retreaded tires, as is the case with most recycled products. One out of five new replacement passenger car tires is a retread, while 98 percent of the world's airlines use retread tires. Nearly 60 million worn tire casings that could be retreaded are discarded every year.

There are numerous cost and energy savings by using retreaded tires. The price of a retreaded passenger vehicle tire is 50 to 70 percent of the cost of a new tire; and the savings with truck tires is even greater. Due to the oil savings and price differentials of new tires to retreaded tires, the industry saves the consumer one dollar for every one dollar of retreaded sales.

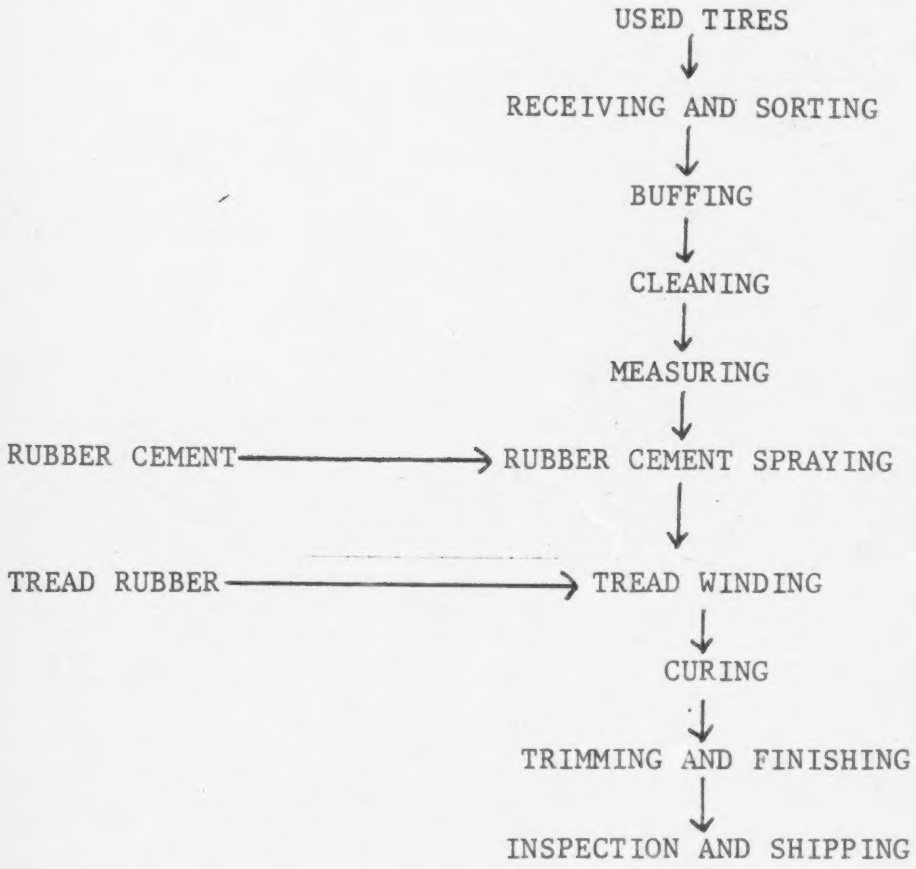
Based on the industry figure of 50 million tires, retreading conserves more than 400 million gallons of oil a year. The manufacturing of a new passenger tire consumes seven gallons of oil, on the average, while retreading the same size tire uses two and one-half gallons—a savings of four and one-half gallons per tire. Retreading a truck tire saves an average of about fifteen gallons of oil.

6. Retreading represents a practicable and meaningful way that small business people can aid the country by undertaking a major recycling program.

Retreading saves more energy, pound for pound, than reducing tire to powdered or crumb rubber. An analogy—returnable soft drink bottles represent a sound recycling project. But instead of washing and refilling the bottles, the recycling process should be to pulverize the returned bottles and manufacture new bottles from the recycled glass. It makes no sense to subsidize the recycling of worn out tires into the basic raw material while refusing to recognize the greater economic benefit to be realized by recycling tires as retreads. If the intent of the regulation is to reduce consumption of petroleum-derived products and to provide incentives for expansions in recycling industries, the investment tax credit must be extended to the retread industry. It accomplishes the objective extremely well. Approximately 95 percent of the Nation's retreading plants are owned and operated by small businessmen whose collective investment is roughly $1 billion. The remaining 5 percent of the firms are owned and operated by new tire manufacturers.

The retreading process in fact reverses part of the new tire manufacturing process by buffing the worn tread back to an optimum point safely above the body plies, but below the base where the new tread should begin. The recycling process then begins by vulcanizing new rubber to the prepared casing. When the tire tread is reduced to the federally required tread base, that is 2/32 of an inch for passenger vehicle tires and 4/32 of an inch for truck tires, sound casings can be recycled, or retreaded, to perform and wear usually as good as a new tire.

A flowchart to highlight this process could look like:


USED TIRES
RECEIVING AND SORTING
BUFFING
CLEANING
MEASURING
RUBBER CEMENT
RUBBER CEMENT SPRAYING
TREAD RUBBER
TREAD WINDING
CURING
TRIMMING AND FINISHING
INSPECTION AND SHIPPING

The basic steps in retreading are:

(1) The selection of a satisfactory tire (casing) to be retreaded.
(2) Selection of the proper matrix in which to cure it.
(3) The preparation of the tire by buffing to accept the new rubber.
(4) Measure the buffed tire to assure selection of proper matrix.
(5) The application of the correct amount and size of new rubber.
(6) Selection of proper rim and curing tube.
(7) Placing the tire in a proper mold or pressure chamber at the proper temperature and pressure for the correct amount of time to properly cure the tread that has been applied.

The recycling of tires is quite different from the remanufacturing of metallic automotive parts such as carburetors, valves, and distributors because materials used in tires are petrochemically based and are, in fact, oil derived.

Following important preliminary steps, the tread rubber is applied to the worn casings. This can be done either by the mold cure process, which involves applying tread rubber either manually or with an extruding device, or by the precured tread process, where the tread rubber is purchased as a precured strip of rubber with the tread design. A tread design is molded into the rubber during the mold cure process when the tires are cured, depending on tread thickness, from 45 minutes to two hours in individual molds at temperatures of 295 degrees to 310 degrees F. To provide molding pressure, air or steam is used at pressures upwards of 140 to 175 psi. Precured treads may be cured at lower temperatures, at about 200 degrees F., for hours in multiple unit heaters using a vacuum or pressure differential to adhere the tread to the casing. Retreading does not remove an energy product from the stream of recycling. It provides energy savings after which the solid waste (tire) can be recycled via cryogenic grinding or pyrolysis.

While an average new tire uses about 35 pounds of rubber, an average retread requires 12.5 pounds of new rubber compound, and could subsequently be driven for as many miles as a new tire. Truck tires are retreated an average of 1.8 times, and many are retreaded five or more times. Commercial jet aircraft tires are commonly retreaded seven or more times, a noteworthy statistic in view of the high performance and safety demands placed on them.

7. Tire retreading recovers substantial amounts of rubber polymer.

The Department of Energy projects over the next seven years a significant increase in the number of passenger tires to be retreaded. By applying the economic limitations to the maximum technical limits of 105 million passenger retreads by 1987, DOE projects that the feasible limit to retreading is 63 million passenger tires. Adding that figure to their projected number of truck and bus retreads totals a projected number of retreads to be 90.2 million. This results in a substantial amount of rubber polymer.

The amount of polymer that is recovered when a tire is retreaded is equal to the amount contained in the tire casing after buffing and before new tread rubber is applied. DOE's projection for retreading is based on the following formula:

Total polymer in retread casings.—Target equal total polymer in new tires plus total polymer in retread casings plus total polymer in tread rubber for retreads times 100.

A passenger tire casing has 11.5 pounds of compound and a truck tire casing has 28 pounds of compound. Based on these figures and projections for 1987, 311, 816 long tons of polymer will be recovered.

8. Any increase to the FET on tread rubber discriminates against the less affluent segments of society.

It is evident that a significant percentage of retread tires are purchased by individuals who are in the lower income brackets. People in this income bracket must look for quality and safety, but primarily economy.

When considering price differential between new tires and retreads, it should be noted that manufacturers do produce low price tires that sell at prices near to retread prices. It can be argued that a quality retread is at least as safe as a lower priced new tire. Safety and economy together are building the retreader's business. If the retreader must add a tax to his service, then, even with a proportionate increase on new tires, he may be forced out of the safe but economical class.

One of the biggest users of passenger retreads is the taxi cab industry. Economy is essential to a profitable taxi cab operation. Taxi cab owners do not buy cheap new tires, but rely primarily on retreaded tires.

The American public is notably "new product conscious." Consumers avoid used or reconditioned items when new articles can be purchased for nearly the same price. Many consumers have been led to believe that a new, less expensive tire is equal to or superior to the retreaded tire.

In response to an article appearing in the July 1981 issue of Changing Times about the safety and economic features of retreads, we received over 5,000 telephone calls requesting information on local retread shops. Similarly, we are now receiving numerous calls requesting similar information in response to an article appearing in the October 1982 edition of Dollar Stretchers.

Any possible increase to the FET on tread rubber would not only adversely affect the retreader, it would have a direct impact on the consumer. According to an NTDRA study, a retread buyer is likely to be operating several cars, earning under $25,000 per year (54 percent), to be in the 18 to 34 year old category (51 percent), establishing a home, and 54 percent have no college education. With prices inflated by an additional tax, tire buying decisions will be postponed longer and a higher percentage of tire casings will be run beyond the point of retreadability or safety. This would also affect the number of casings available to the retreader as opposed to disposal by other costly, less productive methods.

In view of these considerations, rather than increase the tax rate on tread rubber, Congress should consider eliminating the tax. Such a move would provide a direct benefit to consumers, to the small business community, and would aid an important and struggling recycling program.

We are astounded that at this time this administration would put forth a highway program that could in effect put thousands of small businesses out of business. As you know, the success and the future of the American economy is critically dependent upon the preservation of real opportunity for small business. Small businesses have historically provided much of the growth in jobs and in innovation, as well as being the provider of services and the deliverer of goods.

In 1976, research conducted for the National Science Foundation revealed that small business had been a more prolific source of innovation per research and development dollar than medium or large businesses.

Most small business firms are labor intensive. Currently over half the nation's labor force is employed by small businesses. Small businesses continue to remain among the leaders in employment creation. Research conducted at the Massachusetts Institute of Technology concluded that between 1969 and 1976 more than 86 percent of new jobs were provided by small businesses employing less than 500 employees. Some 80 percent of the new jobs were provided by firms having 100 employees or less.

Statistics released by the House Small Business Committee indicate that the combination of high interest rates and a weakened economy have threatened the stability of the American small business community. In 1982, 17,043 small businesses went bankrupt, and more than 47,000 small businesses filed for bankruptcy. That is the highest yearly total of bankruptcies since World War II, and just 32 shy of the 1921 yearly record.

Committee Chairman Parren Mitchell (D-MD) noted that in the midst of this economic downturn, small businesses have been faced with record high interest rates. In 1978, the prime rate averaged 9.1 percent, with inflation running at 7.3 percent. In 1981, the prime averaged 18.9 percent, with inflation at 9.2 percent. The "real interest rate" is computed as the difference between inflation and the prime rate. In 1981, the "real interest rate" was 9.7 percent, nearly five times higher than the historical average.

Figures compiled for the House Small Business Committee by Dun and Bradstreet on economic trends reveal a substantial decline in the economic well-being of the small business community.

BUSINESS FAILURES

	1978	1979	1980	1981
Number	6,619	7,564	11,742	17,043
Change from previous year	−1,300	+945	+4,178	+5,301
Percent change from 1978		+14	+77	+157

SOLE PROPRIETORSHIP INCOME—BUSINESS AND PROFESSIONAL

	1978	1979	1980	1981	Estimate 1982
Income-billions (constant 1972 dollars)	$60.7	$61.9	$60.4	$58.1	$54.8
Percent change from 1979			−2.4	−6.1	−11.6

Given our Nation's economic and unemployment difficulties, the Congress would be negligent to ignore the resources and potential contributions of small business enterprises. Their innovative spirit, their flexibility to meet new challenges, are crucial to our economic progress. The employment entrepreneurial opportunities presented by the small business sector are too important to be less than fully realized. The bottom line is that America needs small business formation and growth.

In March 1982 President Ronald Reagan issued a report on the State of Small Business. Recognizing the importance of small business, and responding to economic needs and demands of this sector, the President asserted: "This Administration is committed to assuring unrestrictive access for small business to all segments of our economy" (p.4). He further states that "* * * this Administration is establishing an economic environment conducive to small business formation and growth" (p.5). Now, this Administration is setting forth a proposal that could literally wipe out a small business recycling industry.

SUMMARY

We present our position to Congress as a matter of survival. NTDRA has historically supported the Highway Trust Fund and the methods of collection of the revenues that go into that fund. But the proposal to sharply increase the tax on heavy duty truck tires would result in significant, administrative and financial burdens on small independent distributors who hold the tires in inventory and who must collect the tax from the consumer under a variety of payment plans. And the proposal to increase the tax on tread rubber by 400 percent is so astounding that it could seemingly put many retreaders out of business.

The National Tire Dealers and Retreaders Association thus supports and is working for Congressional approval for a modified tax payment schedule which recognizes and responds to the inventory problems inherent and the tax collection problems of small business tire distributors throughout the United States. The Association supports the adoption of a federal excise tax payment schedule which would delay the payment of the amount of the tax by the dealer to the manufacturer to 120 days after the last day of the month in which the tire is sold. We also urge Congress to eliminate the FET on tread rubber to be used in the retreading process.

Our petition is most sincere, particularly because it involves our very survival.

Mr. HOLLAND. Thank you, Mr. Friedlander.

At this time the Chair is pleased to welcome back to the committee a former member of the committee, a former colleague, Mr. Don Brotzman.

STATEMENT OF DONALD G. BROTZMAN, PRESIDENT, RUBBER MANUFACTURERS ASSOCIATION

Mr. BROTZMAN. Members of the committee, I am Donald G. Brotzman, currently president of the Rubber Manufacturers Association. This is the national trade association of the tire and rubber industry with a membership of more than 200 companies which produce about 40,000 products. Thirteen of our member companies manufacture tires and account for some 90 percent of all the passenger and truck tires sold in the United States.

Let me take a couple of minutes, Mr. Chairman, and tell you what has happened in the tire industry. I think it is no secret and well known to this committee that the tire industry is in a severely depressed condition, along with other segments of the automotive industry. We have a lot of statistics, but 3 years ago the U.S. passenger tire market was approximately 215 million units. In 1982, it will be approximately 165 million units.

Since the beginning of 1973, a total of 23 tire plants have been closed and over 30,000 people have lost their jobs. This is why I have been up here talking to you on prior occasions about doing something about the excise tax. I have advocated total repeal, and failing that, I have asked that you permit us to pay our excise tax after we collect it rather than before.

While our industry experts believe the worst is over, we are still in a critical turnaround period. Any new factor which discourages tire buying by millions of motorists can give our industry a new shock, and delay recovery for months longer.

In the interest of time of this committee and my fellow panelists, I will limit my formal remarks to two issues, relying upon the chairman's assertion that we could submit our statements for the record.

I am going to talk about the legislative recommendations for financing the highway trust fund as they pertain to tires and touch on the amendment to the Internal Revenue Code that I alluded to before contained in H.R. 2925 and introduced by a member of this committee, Mr. Duncan.

Because we have had the proposals from the Senate and the administration for less than a day, my comments must necessarily be brief. However, I do wish to stress that the tire manufacturing industry has historically supported the highway trust fund and the RMA wishes to reaffirm that position, and expresses general support for the highway bills. Without debating the pros and cons of each provision, the RMA believes it is vitally necessary to maintain the roads and bridges supported by the fund. As a desirable byproduct, this proposal will also create jobs, I have been advised.

As to the specific provisions affecting tires, the RMA endorses the provisions which would eliminate the current taxes on tires under 100 pounds as well as the tax on inner tubes. As you know, this is one of the few manufacturers' taxes on a basic consumer product.

It is RMA's estimate that if this proposal is adopted, it will result in a savings to consumers and will also relieve the manufacturer of a significant administrative and economic burden in the collection and payment of the excise tax on these tires.

As to the increase of the tax on tires weighing 100 pounds or more, the RMA maintains that an increase on the tire excise tax should be offset by an adjustment in the time for payment of the tax.

Presently, tire companies must pay the tax to the Treasury on a semimonthly schedule, by the 9th and 24th of the month. The normal commercial practice in the industry is to allow approximately 90 days credit to the customers, including the amount of tax on the product. Thus, tire manufacturers pay the excise tax approximately 90 days before they have received the tax from their customers, many of whom are small businesses. Thus, the manufacturers have to bear the cost of financing that money for a 3-month period. With the tax generating about $664 million in 1981 and with interest at the current prime rate of 11.5 percent, this imposes a direct cost on the industry of approximately $18,500,000 in additional interest expense. In effect, tire manufacturers are not only required to pay the excise tax, but they must also borrow money for the privilege of paying that tax. Even with the repeal of the tax on tires under 100 pounds, this inequity will remain for manufacturers of tires over 100 pounds.

Under H.R. 2925, manufacturers would be permitted to pay the excise tax on tires, tubes, and tread rubber 90 days after the month of sale. Such a change would bring the excise tax payment schedule more nearly into balance with the financial realities of the tire industry. The tire industry is not seeking a subsidy from the Treasury, but only the elimination of the inequitable burden of paying an excise tax to the Government before receipt from customers of the funds with which to make payment. This proposed change would be of immediate benefit to each and every manufacturer in this distressed automotive-related industry.

I wish to thank the committee for this opportunity to testify and would be pleased to respond to your questions.

[An attachment to the prepared statement follows:]

I

97TH CONGRESS
1ST SESSION

H. R. 2925

To amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes, and tread rubber.

IN THE HOUSE OF REPRESENTATIVES

MARCH 31, 1981

Mr. DUNCAN (for himself and Mr. SEIBERLING) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the Internal Revenue Code of 1954 to adjust the time for payment of manufacturers excise tax on tires, tubes, and tread rubber.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. IN GENERAL.—Section 6302 of the Internal Revenue Code of 1954 (relating to mode or time of collection of taxes) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

"(d) TIME FOR PAYMENT OF MANUFACTURERS EXCISE TAX ON TIRES, TUBES, ETC.—The tax imposed by section 4071(a) (relating to manufacturers excise tax on tires, tubes, and tread rubber) shall be due and payable 90 days after the last day of the month in which the manufacturer, producer, or importer of articles subject to tax under that section sells such articles."

SEC. 2. EFFECTIVE DATE.—The amendments made by the first section of this Act shall apply to tires, tubes, and tread rubber sold on or after the first month beginning after the date of enactment of this Act.

STATEMENT OF NORMAN SHERLOCK, PRESIDENT, AMERICAN BUS ASSOCIATION

Mr. SHERLOCK. I am Norman Sherlock, president of the American Bus Association, representing private bus operators throughout the country who provide scheduled operations as well as tours and charters.

Our membership is about 700 bus operators, 100 associates, and 1,600 travel and tourism entities. In terms of the current proposal before you on the 5-cent-a-gallon tax, we ask that you approach it with some overriding considerations of equity and national policy.

This legislation imposes a 5-cent-a-gallon tax on fuel used by private bus operators, while it exempts fuel used by public mass transit operators who compete directly with us in commuter runs and particularly in tours and charters.

The bus industry has already been in a situation where mass transit operators get their buses provided by the Government.

As a matter of equity, we do not think it is fair or good policy to give them that advantage, and in addition, to create a situation where private companies would have to pay 5 cents a gallon more to operate. We would expect that the public authorities themselves will want to support an exemption of private operators from this 5 cents a gallon since many of them in many cities subcontract with private operators who would have to raise the cost of their services or not be able to provide them.

In 1977 this committee addressed the issue of fuel taxation in energy as it related to my industry. I would like to read into the record an excerpt from the House report which justified the exemption from that current 4-cent-a-gallon tax.

> Since bus transportation is more energy efficient than private automobile transportation, the committee believes it desirable to encourage greater use of bus transportation. In addition, the committee considers it appropriate to make the excise tax treatment of private transit and school bus operations consistent with governmental and tax-exempt educational bus operations.

The reasons that applied in 1977 are no less compelling today. We would like further consideration given to the total ramifications of the issue before you, as well. The bill you have seen does not address or redress the imbalance in national transportation policy of the various modes and the way they are treated.

There have been billions of dollars for Amtrak, billions of dollars of subsidy to the airlines, billions of dollars of direct operating subsidy and capital to the mass transit authorities, and virtually none to this industry.

We have survived because of our hearty sense of private enterprise, in spite of those kinds of policies and certainly not because of them.

Imposition of this 5-cent-a-gallon tax would have a very predictable effect. We have many operators who are marginal. The additional 5-cent-a-gallon tax simply means to them that their profit is gone or that they cannot provide some of those services.

The public will suffer as a consequence.

At a time when the administration, through UMTA, has been trying to encourage private bus operators to supplement mass transit efforts, some private operators, as a result of this, will find themselves at too great a disadvantage to do so.

The new regulatory reform bill passed this session by the Congress provides authority for bus operators to discontinue service wherever they cannot meet variable costs of operation. To add 5 cents a gallon to those operations will have the effect in many communities throughout this country of forcing bus operators to drop service.

The ability of the bus industry to serve as a lifeline for travel and tourism will be diminished. Since the fuel crisis cities, States, and many destinations all over this country have been eager to promote bus transportation in order to bolster their sagging economies. They recognize every tour charter they get in the community leaves about $3,500 in revenue for them.

This will diminish our ability to serve that particular function. The bus industry's expenditures total about $9 million and stimulates employment in the travel and tourism industry, particularly among those people who have low entry skills, minorities, and women.

It does not serve national policy in our estimation to approach this industry in terms of imposing disincentives to service on it.

Thank you for your attention to our problems.

[The prepared statement follows:]

STATEMENT OF NORMAN R. SHERLOCK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN BUS ASSOCIATION

Mr. Chairman and Members of the Committee: I appreciate this opportunity to appear before the Committee on behalf of the American Bus Association.

ABA is the national trade association for the intercity bus industry. With a fleet of 21,000 buses, the industry transported 375 million passengers in 1981 to and from some 15,000 communities, 14,000 of which have no other form of public transportation. ABA has 1,600 members engaged in travel and tourism, an industry that contributes $140 billion to our national economy and that has become increasingly dependent on economical and energy efficient bus service.

In Section 233 of the Energy Tax Act of 1978, the Congress repealed the excise tax on diesel fuel used in buses providing intercity and local service to the general public and in buses used in charter or special service and having a seating capacity of 20 adult passengers or more. Two years later, the Congress passed Section 222 of the Crude Oil Windfall Profit Tax Act of 1980 allowing an energy investment tax credit to qualified intercity buses. 26 U.S.C. (1)(16). Both pieces of legislation were enacted in recognition of the necessity to conserve fuel and to maintain a viable intercity bus industry as a practical alternative to the private automobile. The case for repeal of the excise tax on fuel was summarized as follows by the House Ways and Means Committee when it reported the Energy Tax Act of 1978:

"Since bus transportation is more energy-efficient than private automobile transportation, the Committee believes it desirable to encourage greater use of bus transportation. In addition, the Committee considers it appropriate to make the excise tax treatment of private transit and school bus operations consistent with governmental and tax-exempt educational bus operations. Therefore, the Commission decided to extend the present exemptions from the taxes on tires, tubes and tread rubber, gasoline and other motor fuels, and lubricating oil to privately owned intercity and local bus operations and private school bus operations not presently exempt from these taxes."[1]

Section 305 of the proposed Highway Act of 1982 would impose a tax of 5 cents a gallon, effective on and after April 1, 1983, on diesel fuel used in intercity buses used in intercity and local service. Imposition of a 5 cents a gallon tax on diesel fuel used by the private, unsubsidized sector of the bus industry would be inequitable, unduly burdensome, and contrary to the national energy policy.

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[1] H. Rept. No. 95-496, Part III, 95th Congress (1978) 68.

The proposed tax would not be imposed on local mass transit systems. This is inequitable because privately owned charter bus operations compete against publicly owned mass transit systems. In Section 3(f) of the Urban Mass Transportation Act of 1964, 49 U.S.C. 1602(f), the Congress directed the Secretary of Transportation to prevent UMTA grantees from driving privately owned carriers out of the market. The Urban Mass Transportation Administrator is attempting to devise effective regulations in a pending rulemaking proceeding.[2] Providing a tax exemption for publicly owned carriers while denying it to unsubsidized, privately owned carriers will aggravate the problem UMTA is attempting to solve.

Competition between the public and private sectors promises to become more intense by reason of the easier entry authorized by the Bus Regulatory Reform Act of 1982 (Public Law 97-261).

Imposition of a 5-cents-a-gallon diesel fuel tax would be a crushing blow for the intercity bus industry. Although the long-term future of the industry seems bright, we must survive in the short run, and the short-term outlook is bleak. For the first three quarters of 1982, study carriers designated by the ICC[3] had a combined net income of only $25.1 million as compared with $39.3 million in 1981. The operating ratio of the carriers deteriorated from 86.2 percent for the first three quarters of 1981 to 91.3 percent for the same period in 1982.[4] Although 1981 was a better year, it failed to produce the returns on equity and investment required to enable the bus industry to serve as an energy-efficient reservoir of passenger transportation.

Only a part of the 5-cents-a-gallon diesel fuel tax could be passed on to passengers. To the extent that the tax could be included in the price of bus tickets, it would be paid, in the main, by passengers over the age of 65, under the age of 21, and by those having incomes of less than $10,000 a year.

The immediate financial problems of the bus industry spring from a temporary energy glut and falling gasoline prices during most of the past year.[5] Nevertheless, a part of the nation's energy policy is based on the premise that the intercity bus industry will have the capacity to meet priority passenger needs when gasoline is in short supply; that it will serve as a lifeline for the multibillion dollar travel and tourism industry. Those were the predicates for the tax relief granted to the intercity bus industry in 1978 and again in 1980 by the Energy Tax Act and the Crude Oil Windfall Profit Tax Act, respectively.

Reimposition of an excise tax on diesel fuel used by intercity bus operators would be inequitable if the tax is not also imposed on their subsidized competitors. The consequences of imposing a diesel fuel tax of 5 cents a gallon will be to further weaken an industry which is already overwhelmed by the impact of the recession on its customers. And, finally, if the Congress expects the bus industry to carry out its mission in the national energy program, it should not enact tax disincentives to the use of the most energy-efficient mode of intercity passenger transportation available.

By not imposing a diesel fuel tax on intercity bus operators, the Congress, in effect, would be purchasing 141 passenger-miles per gallon of fuel for millions of bus passengers as compared with the 48 passenger-miles per gallon of fuel purchased at a far greater expenditure for many fewer Amtrak passengers.[6] By a program of modest tax incentives, the Congress has attempted to maintain a large reserve of the most energy-efficient form of intercity passenger transportation available. That program does not conflict in any way with the goals of the proposed highway and mass transit legislation. We urge that this feature of the national energy policy be preserved by not imposing a tax on fuel used in intercity buses.

Thank you again for the privilege of appearing and voicing the concerns of a small but vital industry.

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[2] UMTA Docket No. 82-I—Charter Bus Operations—Advance Notice of Proposed Rulemaking (47 Fed. Reg. 44795, Oct. 12, 1982).

[3] These are Class I carriers of passengers having $500,000 or more in annual gross operating revenues derived from regular-route transportation. They are called "study carriers" because they are required to supply the detailed revenue and expense data demanded by the ICC in 49 CFR 1139.21 for the purpose of determining whether a general fare increase is justified.

[4] Figures supplied by the National Bus Traffic Association in its Special Computer Report.

[5] For example, as noted by the National Bus Traffic Association in its most recent Special Computer Report on ICC study carriers, fuel expense as a percent of bus carrier revenue declined from 9.2 percent for the first three quarters of 1981 to 8.5 percent for the same period in 1982.

[6] Source, American Bus Association, Bus Facts (1982 ed.) page 9.

WHY THE INTERCITY BUS INDUSTRY'S FUEL AND EXCISE TAX EXEMPTION SHOULD BE RETAINED

I. Because of the unique and irreplaceable service it provides, the intercity bus industry merits strong government support.

Intercity buses serve 15,000 communities nationwide, as compared to roughly 1,000 for airlines and Amtrak combined.

Last year the intercity bus industry carried 375 million passengers, more than the airlines and Amtrak combined.

The intercity bus is by far the most fuel efficient mode of transportation, being roughly three times as fuel efficient as Amtrak and six times more fuel efficient than airlines.

Intercity bus service is heavily utilized by those that cannot afford other means of transportation; sixty percent of the passengers who use intercity bus services have annual incomes of under $15,000.

II. Despite the major social benefits of intercity bus service, government transportation programs have heavily favored competing transportation modes.

Federal Railroad Administrator Blanchette has testified that intercity bus passengers receive a subsidy of 8 cents per passenger (all from the current tax exemptions in question), Amtrak passengers receive a per passenger subsidy of 35 dollars and airline passengers receive a subsidy of 77 cents per passenger.

A 5-cent fuel tax would cost the intercity bus industry approximately $10 million, further exacerbating the disparity created by Federal subsidization of Amtrak and other modes of transportation.

Elimination of the intercity bus exemption would have a minuscule revenue raising effect; it would have less effect than reducing the annual Amtrak subsidy by one half of one percent.

III. Continuation of the intercity bus service exemption is at least as justifiable as retaining that exemption for intracity bus services provided by public mass transit districts.

Along with fuel efficiency, providing intercity bus carriers equal tax treatment with local transit service was the reason for extending the exemption to intercity bus carriers in 1978. That equality of treatment should continue.

UMTA appropriations are not approximately $3.4 billion annually, and in addition, transit districts receive roughly $89 million from the current use and excise tax exemptions; intercity bus carriers provide an equally important transportation service and do so as private enterprises with their only federal subsidy being current excise and use tax exemption.

Although the Administration has proposed to reduce mass transit operating subsidies, there has been no serious consideration given to removing the mass transit tax exemption; by the same token, there is no rational basis for removing that exemption as it applies to intercity bus services.

IV. While removing the intercity bus tax exemption would have minimal revenue raising effect, it could have a negative impact on the maintenance of a private nationwide intercity bus network.

Removal of the exemption will increase the number of small communities which will be abandoned by bus operators. Under the Bus Regulatory Reform Act of 1982, routes that do not generate sufficient revenues to meet their variable costs may be abandoned. Removal of the exemption will force increased rates, decrease revenue and increase costs.

In 1981, the intercity bus industry's net income was approximately $100 million; in 1982 it is expected to be roughly $50 million. Thus, removal of the exemption would dramatically decrease the industry's existing small profit. Such a profit squeeze would undoubtedly spell the end of bus service to many of the 15,000 communities now receiving service and would reduce the level and quality of service nationwide. Many marginal and small bus operators would be forced out of business by removal of the exemption.

The cash flow generated by the original imposition of the exemption in 1978 enabled the intercity bus industry to accelerate its new bus purchases sufficiently to meet the challenge of carrying 32 million additional passengers in 1979 at the height of the recent fuel crisis. Without continuation of that exemption, such capability will not exist in the future.

The intercity bus industry has been able to survive as a private sector provider of essential transportation services, even though profits have declined substantially over the past 20 years. Imposition of new taxes would decrease substantially the industry's small margin of profit and could damage seriously the existing bus system and lead to a much more costly public system.

Increased rates, associated with removal of the exemption, would similarly hurt important related travel and tourism businesses which rely heavily on the intercity bus industry to supply travel to use their services (e.g., hotels, restaurants, attractions, etc.). A mere 10 percent decrease in bus ridership would cost these businesses close to 1 billion dollars in revenue. As a result, unemployment would increase considerably. Since travel and tourism heavily employs minorities, women and youth, those hardest hit by current record unemployment will be once again negatively impacted by the sizable loss of revenue.

Mr. HOLLAND. Mr. Reebie?

STATEMENT OF ROBERT S. REEBIE, PRESIDENT, BI-MODAL CORP., GREENWICH, CONN.

Mr. REEBIE. Mr. Chairman, I appear today as president of the Bi-Modal Co., the manufacturer of a transportation unit called the RoadRailer. I will summarize the comments that are being presented to the committee in writing. I sincerely appreciate this opportunity to appear before your committee because I believe that the intent of the proposed highway rebuilding program and the need for increased taxes can be served by including legislation to exempt RoadRailer equipment from the excise tax on highway trailers.

This action appears necessary in order to recognize and accommodate a new, innovative type of transportation equipment which offers significant economic benefits to the Nation, but which was not conceived in 1977 when the Internal Revenue Service modified its highway excise tax regulations.

Now, the equipment to which I refer called a RoadRailer is a 45-foot-long freight transportation vehicle which can be moved on its steel wheels in long, efficient railway trains without the use of underlying cars, operated between origin and destination cities.

Alternatively, it is a vehicle which can be moved on its rubber tires on local streets between railhead terminals and origin shippers, or destination consignees.

As such, RoadRailer combines the efficiency of flexible highway transportation or short distance pick up or delivery operations with the efficiencies of railway transportation for longer distances.

The modern RoadRailer realizes a vital economic need of our Nation; namely, it provides a transportation system which minimizes the materials and labor it consumes as it produces the variety, quality, and quantity of transportation services which our Nation needs for intercity transportation of manufactured merchandise and perishable freight.

Over the past 2 years, 250 RoadRailers have been produced and tested throughout the Nation on 11 railroads and are currently being introduced by the Road Rail Transportation Co. in service over Conrail lines between Buffalo and New York City.

Rochester is to be added shortly.

The test and daily operations have confirmed the economic benefits of RoadRailer. Very simply, to compare them with current piggyback trailer-on-flatcar, RoadRailer systems require about 14 to 25 percent less investment, save approximately half of the fuel, and reduce operating costs 15 to 25 percent.

The savings versus highway are even greater, saving, for instance, as much as 64 to 84 percent of fuel; and in operating distances over 300 miles, the further the distance, the greater the savings versus highway.

Finally, RoadRailer operations will reduce the cost of highway maintenance while improving railroad financial health. We think RoadRailer can be the most significant improvement in surface transportation in the last quarter of this century.

The current RoadRailer design modernized an earlier design by the C&O Railroad which was operated for 10 years between 1960 and 1970. At that time the C&O requested the IRS to rule on the application of taxes to the RoadRailer and was granted relief on the basis, according to the statement of the IRS, that "the unit described is designed predominantly for use on rails as indicated in the information submitted."

Now, in 1977 the IRS changed its regulations endeavoring to maintain the same limits, but with the older RoadRailer out of service and the new one not in service required a rehearing when we started producing the new ones.

Unfortunately, the IRS has now suggested that we should be taxed at the normal excise tax for highway vehicles. What this means is that since we pay a tax, or the railroads that operate it pay a tax on the rail right-of-way and the units would also be paying a tax for highways which they don't use, we or the railroads would be subjected to double taxation.

Second, since these units are only used for local transportation about 7 percent of their mileage, applying the tax of the Road Railer, which is 2.5 times as expensive as a standard highway trailer, means that the IRS is asking this new system which is designed to take transportation off the highways, to pay something like 25 to 35 times per mile the payment of a standard trailer unit designed to operate on the highways.

We believe that we have been told by attorneys that legislation is necessary to correct this situation and it is for that reason that we have come before you today.

Thank you.

[The prepared statement follows:]

Statement of Robert S. Reebie, President, The Bi-Modal Corp., Greenwich, Conn.

Mr. Chairman: I sincerely appreciate this opportunity to appear before your committee to support and request exemption of the RoadRailer from the excise tax on highway trailers. The action appears necessary in order to recognize and accommodate a new, innovative type of transportation equipment which offers significant economic benefits to the nation but which was not conceived in 1977 when the Internal Revenue Service modified its highway excise tax regulations under the Internal Revenue Code of 1954.

ROADRAILER EQUIPMENT

The equipment to which I refer is called a RoadRailer (see exhibit 1). It is a 45-foot long freight transportation vehicle which can be moved on its steel wheels in long efficient railway trains operated between origin and destination cities. Alternatively, it is a vehicle which can be moved on its rubber tires on local streets between railhead terminals and origin shippers or destination consignees. As such, RoadRailer combines the efficiencies of flexible highway transportation for short distance pick-up or delivery operations with the efficiencies of railway transportation for longer distance intercity operations.

The modern RoadRailer realizes a vital economic need of our nation; namely, it provides a transportation system which minimizes the materials and labor it consumes as it produces the variety, quality, and quantity of transportation services which our nation needs for the intercity transportation of manufactured merchandise and perishable products.

Over the past two years, 250 RoadRailers have been produced and tested throughout the nation on nine railroads in trains up to 75 units in length, over all types of terrain, and in all weather conditions. They have been operated safely in daily commercial service by a midwestern railway for a year, and were recently introduced by the Road Rail Transportation Company in service over Conrail lines between Buffalo and New York City.

The tests and daily operations have confirmed the economic benefits of RoadRailer. Compared to the latest concepts for combining road and rail operations with Trailer-on-Flat-Car "piggyback":

RoadRailer savings

	Percent
Equipment investment	14–25
Terminal investment	33
Equipment tare weight (empty)	50–59
Fuel consumption	46–53
Operating cost:	
500 miles	15–17
1,000 miles	19
2,000 miles	21–23

Compared to all-highway operations, RoadRailer intermodal operations generate much greater savings, especially 64–80 percent savings in fuel. Savings in operating costs increase as distances rise over 300 miles. In addition, RoadRailer operations will reduce the cost of highway maintenance while improving railroad financial health.

PREVIOUS INTERNAL REVENUE SERVICE RULINGS

The current RoadRailer design modernized a much earlier design which was operated for 10 years by the Chesapeake & Ohio Railroad from 1960 to 1970. Originally called a Railvan, the C&O eventually renamed its units RoadRailers. At that time, the C&O requested a ruling from the IRS concerning the applicability to the original Railvan of the manufacturers excise tax imposed by section 4061(a) of the Internal Revenue Code of 1954.

In its request, the C&O indicated that its Railvans would be utilized in much the same manner as the modern version. Indeed, operating experience proved that 93 percent of the mileage of these units was on the rail and only 7 percent on local highways. The C&O stated that the original Railvan was "designed primarily for rail service" and that "it could not compete as a highway trailer because of its weight, size, and cost."

On April 29, 1965, the Chief, Excise Tax Branch of the IRS, ruled as follows: With respect to this vehicle's operation, you state in your letter that "although the Railvan body resembles the body of a highway semitrailer, the unit is in design, construction and utility a railroad car rather than a highway vehicle. Operating experience obtained thus far indicates that 93% of the mileage accumulated by these cars has been over the rails. This primary rail usage will continue, for Railvan was conceived as an inter-city rail vehicle having the incidental capacity of off-track movement to loading and unloading stations. Railvan can be operated efficiently as a railroad car, whether or not its highway capacity is utilized. On the other hand, it could not compete as a highway trailer because of its weight, size, and cost."

On the basis that the Railvan described above is designed predominantly for use on rails as indicated in the information submitted, we hold that the Railvan is primarily for off-highway use. Consequently, you incur no excise tax liability on your sale or use of this vehicle.

1977 REVISION IN IRS REGULATIONS

In 1977, the IRS adopted new regulations pursuant to Section 4061(a)(1) which provided a clarification of the term "highway vehicle" for excise tax purposes. Rather than denying or withdrawing the previous definition of taxable status, "primarily designed for highway use", the IRS endeavored to clearly exempt from taxable status vehicles which were defined in three exceptions. One of the three exceptions is listed below:

Vehicles specifically designed for the primary function of transporting a particular load other than over the public highway in connection with any of certain enumerated operations; and

If by reason of such special design, the use of such vehicle to transport loads over the public highways is substantially limited or impaired.

We believe that our 1980 RoadRailer meets the revised 1977 requirements for exemption from highway excise taxes to even greater extent than its 1960 predecessor.

RECENT IRS REVIEW OF THE MODERN ROADRAILER

By June of 1980, the Bi-Modal Corporation had completed its testing of the RoadRailer component systems and full prototypes. Bi-Modal was prepared to introduce its innovative RoadRailers into commercial operations which promised the nation major improvements in the productivity of its transportation system. Significant reductions would be realized in fuel consumption and highway maintenance while efficient use of their trackage would permit the nation's railways to regain, at realistic profit levels, traffic which had been diverted to highway from the less efficient boxcar and TOFC piggyback services.

Helpful support for RoadRailer has been received from the Department of Transportation, and the Railway Safety Board which had mandated and monitored our tests, some of which had been purchased at our expense from the FRA Test Center at Pueblo. Both Houses of Congress have passed legislation freeing RoadRailer type equipment from 1893 and 1903 technical requirements which were still applicable to railroad cars but which were inappropriate for the different operations of RoadRailer trains. In the passage of this legislation, we received the active support of the railway unions. For highway operations, we received the support of the highway unions; and, of course, we have been encouraged throughout by the ICC and shippers to the Nation's freight.

Yet, as an entrepreneur, I deemed it desirable to avoid undue risk to our financial backers and to reaffirm the previous IRS ruling following my request to the Secretary of the Treasury, the IRS reviewed our case. It is my understanding that considerable support existed within the IRS staff for our position. However, a contrary view of the IRS legal staff eventually prevailed; namely, that the wording of the 1977 Regulations had indeed changed the criteria. It was ruled that RoadRailers physically could be used to transport freight via highway, and, as such, were vehicles subject to the highway excise tax.

In an appeal hearing, our attorneys made the following points which were never disputed.

1. The highway excise tax was designed to develop the highway trust fund.

2. A four year DOT-FRA study on intermodal transportation again confirmed that intermodal freight vehicles would operate 93 percent of their mileage on rail and only 7 percent on highway.

3. The full price of a RoadRailer is about 2½ times the price of a typical highway trailer. When the IRS suggested a deduction from the RoadRailer price for the rail equipment, the price of its reinforced body and its highway air suspension remained 1½ times the price of a highway trailer.

4. The combined result of items two and three indicated that the IRS ruling would levy against RoadRailers, which were designed to avoid highway mileage, an excise tax 33 to 20 times higher per mile of highway travel than is charged to typical trailers which are intended for 100 percent of their use on highways.

5. The special design of RoadRailers, with its much higher price and lower load capacity, meets the stated criteria for exemption. Regardless of a RoadRailer's physical capability to transport loads via highway, "the use of such vehicle to transport loads over the public highways is substantially limited or impaired" from the vital viewpoint of economics. In fact, no operator could afford to acquire RoadRailers for all-highway operations.

While other points were made, the above arguments present adequate evidence of the nation's interest in reversing the current IRS ruling.

Indeed, I now believe that the IRS legal staff would welcome congressional support for them to revise the unfortunate wording of their 1977 regulations. Such support would permit the IRS to consider the vital economic aspects of the matter and to avoid the imposition of a crushing tax which was never intended to be applied to this type of equipment. I am advised by our company lawyers that the Internal Revenue Code must be amended to accomplish this goal.

Amendment of the Code must accomplish four objectives.

1. It should facilitate the IRS in revising its current negative ruling on the exemption of modern RoadRailers from payment of an unreasonable tax.

2. It should avoid complex calculations of a partial tax which would open a "Pandora's box" of partial payment concepts.

3. It should recognize the difference between the exceptional high cost of RoadRailers, which makes them uneconomic for all-highway operations, and the modest increase in prices of TOFC "piggyback" trailers which does not render them uneconomic for all-highway operations.

4. It should encourage the adoption of an innovative transportation concept which appears much needed by the nation.

I thank you for the opportunity to present this information to you.

Mr. HOLLAND. Mr. Duncan?

Mr. DUNCAN. I want to welcome all of you to the committee. I think perhaps we have the best for the last. It is good to see a former colleague, an excellent member of this committee, Don Brotzman, back with us.

I think all of us in Washington know that the Rubber Manufacturers Association is well represented, as you can determine here today.

Mr. Schulze had some questions that he wished to ask you, Mr. Reebie. He was called to the floor and had to go there. I shall also adopt the questions as my own.

In sum and substance, I understand the RoadRailer, by its very nature, is heavier than the normal highway trailer and, if so, how do you reconcile that fact with the request to exempt RoadRailer from the 10- or 12-percent excise tax?

Mr. REEBIE. Really on two bases: No. 1, the RoadRailer has its tandem rear highway axles spread on either side of the rail axle in the modifications of our current equipment and all new designs.

As such, it is termed a spread tandem and the highway load limit laws recognize higher loadings available to spread tandems than a standard tandem. For the same amount of freight in the trailer, we may be actually putting less stress in the roadway than a standard trailer, even though we weigh a little bit more because of our spread tandem.

The second factor is the one I just mentioned to you: If we are assessed the tax on a $36,000 unit, at the same percent as is taxed on a $12 or $14,000 highway trailer, and if we are only traveling 7 percent of our miles on the highway, we are being asked to pay 25 to 35 percent higher per mile for a vehicle designed to save the highways more than a vehicle which performs its operations 100 percent on the highways.

A third reason—I did not mention—was the double taxation. We would be paying taxes which go into the highway trust fund which we don't use and we will also be paying the taxes on the right-of-ways and equipment which the States levy against railroads.

Mr. DUNCAN. Does the RoadRailer pay taxes to States and other agencies by virtue of its being railroad rolling stock?

Mr. REEBIE. Yes, sir, it does. Some States tax on a mileage basis; some on a days-in-State basis; some on a value basis.

But, yes, the States do tax railroad property both in terms of the right-of-way and equipment.

Mr. DUNCAN. In other words, you object to being taxed as rail equipment as well as highway equipment all at the same time?

Mr. REEBIE. Especially when we don't use the highways except locally.

Mr. DUNCAN. I have no further questions, Mr. Chairman.

I would request that Mr. Schulze be allowed to submit questions in writing if he so desires.

Mr. HOLLAND. Without objection.

Mr. Bailey?

Mr. BAILEY. Mr. Reebie, is it possible to apportion? Is that your recommendation? Are you talking about an outright exclusion?

What you are talking about doesn't seem fair to you; that is quite clear, particularly if it can mean more efficient movement of goods and services in the country. But, is it possible either via some bookkeeping method or some vehicle log method to apportion taxation burdens?

Mr. REEBIE. It had been our original comment that we would be willing to pay our fair share. I might state that it is not just us that I am concerned about. We are talking about a very significant advance in the transprotation system of the Nation which would benefit the Nation as a whole.

The problem appears to be one that was referenced this morning where there were questions raised as to whether a heavy unit—and we are a heavy unit—would be paying a very high tax per mile because of the short distances it goes; and I think that it has been reviewed both by the DOT and the IRS that any endeavor to base the taxes on a mileage performed basis opens up a whole Pandora's box of measurement and control.

Mr. BAILEY. I can understand what you are saying, but if there is not some degree of apportionment, then the criticism of subsidization is going to be raised.

I am sure you realize that. It is a dilemma. I wonder if you have suggestions on how to solve it?

Mr. REEBIE. We have not found a suggestion except to go to the administrative bodies.

The tax on us, based upon the small mileage we would run, might be somewhere in the neighborhood of $150 to $200. Then to try and open up to all the trucking industry similar changes in their excise tax for those who run short mileages would raise an issue far larger than the RoadRailer.

If a system could be found that could do this without incurring more administrative costs than the tax, we would be glad to comply.

Mr. BAILEY. I would just recommend with a little imagination I am sure a constructive, effective solution could be found. I would suggest you have a good argument in terms of fundamental fairness. You will also find someone saying to you the burdens of subsidizing even that short-fall portion, which would represent a sizable percentage of income to you in terms of profit, obviously is going to be resisted with some justification.

I don't want to debate it with you, but it is quite obvious that there is some portion of that income that has to be paid.

Even if you talk about arguments of spreading the load—when you talk about the gross weight of a vehicle and about spreading it over axles—that is very, very true. In terms of spreading that weight out, it decreased the impact, or the damage caused by high gross weights, but there are limits to that also.

I think you have to recognize the fact that people will complain you have to make a contribution.

Mr. REEBIE. We did feel this: concerning the new legislation, first off, we are paying some gasoline taxes on the local operation.

Second, as I understand the new legislation, we would be paying an additional tax just because of the weight of the vehicles, including the carrying capacity.

So that narrows the difference. Now, we certainly would be delighted if the IRS would agree with us on the percentage of mileage that we move over the highway and charge us a percent.

Actually that happens to be confirmed by the DOT comment about that 7 percent.

To do that for us, the problem would be that they would now have to go back and do that in some fairness to all people who travel short distances; and so I sense that to try and solve our relatively small problem, they would raise a big problem, and they have objected to it, not us.

We would be delighted to pay the 7 or 10 percent.

Mr. **Bailey**. Good.

Mr. **Reebie**. No question, based upon what would be 7 to 10 percent of a standard over-the-road trailer at the $10,000 to $14,000 level rather than our level where we are putting all this money in for equipment to be used over the railroad.

Mr. **Bailey**. Your net weight is higher. You feel it is unfair in terms of——

Mr. **Reebie**. We are only about 3,000 pounds heavier, on the total gross amount of weight of a tractor-trailer unit on the highway; that is not a great deal.

Actually, as I said, we come further under the load limits of a spread tandem than many trailers do with the normal tandems.

Mr. **Bailey**. Thank you very much.

Mr. **Holland**. Gentlemen, again the committee is grateful to you for coming today and sharing this information with us. You have been most helpful.

If there is no further business to come before the committee, these hearings are adjourned.

[Whereupon, at 4 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

AIRCRAFT OWNERS AND PILOTS ASSOCIATION,
December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The highway fuel tax bill submitted by the Administration has the inadvertent effect of raising the aviation gasoline tax 5 cents in addition to the 8 cents tax increase enacted last summer.

We hope the Ways and Means Committee will reject this unintended result. We urge the Committee to adopt a technical amendment that would require the aviation gasoline tax to be collected entirely at the retail pump just as the general aviation jet fuel tax is collected. This would not create any difficulty at the refinery since aviation gasoline is a different product from motor gasoline.

A technical amendment of this nature would have the double benefit of (1) retaining the aviation gasoline tax at the new level; and, (2) insuring that the aviation gasoline taxes collected will be devoted to the aviation trust fund—where they belong.

If you have questions on this issue, please feel free to give us a call.

Sincerely,

W. LAWRENCE GRAVES,
Vice President.

STATEMENT OF FRANCIS B. FRANCOIS, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Founded in 1914, AASHTO represents the departments concerned with highways and transportation in the States, the District of Columbia, and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member highway and transportation agencies.

On behalf of the State departments of highways and transportation that constitute the American Association of State Highway and Transportation Officials, I am pleased to offer the committee testimony regarding the need for extending the highway trust fund and increasing the revenues that support it, along with some specific comments regarding the allocation of highway user charges among the different classes of users.

Turning first to the needs of the Nation's Federal-aid highway system, we believe these have been well documented by the Federal Highway Administration in its report to Congress. The information advanced by the FHWA was derived from our member departments, and we have had an opportunity to review it. Generally, we believe that the FHWA report to Congress accurately portrays our highway needs, and thus it has our support.

Because the issue of needs has already been widely examined, we do not want to go into detail in this statement. However, a summary of the situation as viewed by the States is as follows:

We have yet to complete our Interstate Highway System. After last year's important congressional action redefining interstate completion, some $38 billion in work still remains.

If we are to maintain acceptable levels of service on the existing Interstate Highway System, then funding for the new interstate 4R program must be significantly increased. We believe that at least $2 billion is necessary now, and that the program level should be increased to the $3 to $4 billion range through the 1980's and 1990's.

Our primary and secondary highways are continuing to decay, and must receive more attention if the Nation's highway system is to remain functional and further deterioration in economic productivity is to be avoided.

The bridge needs found in our States, cities and counties remain largely unmet, and are beyond the fiscal ability of State and local governments to handle.

Our urban highway network is deteriorating significantly in many places across America, and we have large unmet needs in cities like Houston and other growth centers. Certain elements of our urban highway system are clearly necessary both for a comprehensive national highway system, and to assure the successful operation of bus mass transit systems.

The safety construction needs of our Nation's highways are still unmet in many areas, and require increased attention by all levels of government.

When viewed collectively, in our judgment the programs of the Federal-aid highway system as now constituted should be funded at a $12 to $14 billion per year level.

In our opinion, the level of funding to a great extent dominates all other legislative issues affecting the future of the Federal-aid highway program. The choices before us are straightforward. If the program were to continue at present funding levels, then we cannot adequately meet the needs of our Nation's highway system. On the other hand, with a Federal-aid highway program in the range of $12 to $14 billion, and with the continued cooperation of State legislatures in raising matching revenues and the revenues needed to maintain the non-Federal highways, we can assure a reasonable level of good highways to the American people.

Mr. Chairman, we were most pleased to see action earlier this year by the House Committee on Public Works and Transportation, reporting a Federal-aid highway bill that would provide funding in the $12 to $14 billion range, together with funding of public transportation needs. We have also been supportive of efforts by Secretary Drew Lewis seeking to increase our highway trust fund revenues. Recently, at our AASHTO annual meeting in Orlando, Fla., our policy committee took several actions that relate to the issues before you here today, and I would like to report them to you.

Meeting on November 21, the AASHTO Policy Committee enacted the following motion with regard to Secretary Lewis' proposal: "That AASHTO, in recognition of large and unmet established needs in our Nation's transportation system, supports the concept of Secretary Lewis' recommendation for a 5 cent equivalent motor fuel user fee increase, provided that the issue of equity among and between the States is addressed in any legislative proposals advanced."

In addition to this motion, the policy committee also approved two resolutions that have advanced through a rather lengthy and exhaustive development process within our committees. The two resolutions were initiated within our subcommittee on highway transport, and were later approved by our standing committee on highways and the AASHTO Executive Committee before reaching the policy committee. The policy committee enacted both by more than the required two-thirds majority of all States. The two resolutions represent the best professional engineering judgment of our AASHTO membership on the subjects to which they are directed.

Copies of both resolutions are enclosed, and the first is titled "Resolution on United States Department of Transportation Truck Size and Weight Report", which has been transmitted to Congress. The resolution finds that the increase in axle loads from 18,000 pounds single/32,000 tandem to 20,000 single/34,000 tandem that occurred in 1974 has resulted in a large increase in the rate of deterioration of the Nation's highways and bridges, and that any further increase in these axle loads will accelerate the deterioration rate and multiply the demand for funds needed to preserve and protect the system. Further, AASHTO finds that at both the State and Federal level it appears there will continue to be a shortfall in funding which will result in an increase in accidents, in circuity of travel and in vehicle operating costs, and we therefore oppose any further increase in truck size and weight limits beyond AASHTO's approved policy and oppose mandatory application of Federal permissive size and weight limits.

At the same time, the resolution recommends adequate funding be made available to restore and maintain the Nation's highways and bridges, to carry present size and weight limits, and that an equitable allocation of costs among the various classes of highway users be implemented to assure that each type vehicle is contributing its fair share.

This first resolution is thus fully supportive of our endorsement of Secretary Lewis' 5-cent proposal. Beyond that, it also calls for recognition of the damage heavy trucks do to our highways and bridges, and supports action in Congress to more equitably distribute highway user fees to take this into account.

The second resolution, which is accompanied by a supportive statement, deals with the issue of cost allocation. It is titled "Resolution on United States Department of Transportation Federal Highway Cost Allocation Study", and after stating several findings concludes with the following resolve:

"* * * the Policy Committee of the American Association of State Highway and Transportation Officials * * * concurs in the findings of the Federal Highway Cost Allocation Study and recommends that legislation be enacted as soon as possible to assure that the various classes of highway users pay their fair share of the cost. It is further recommended that a national weight distance tax be considered as a more equitable tax approach with the administration and collection to be structured at the State level with the States being reimbursed for their expenses in administration and collection, provided that no preemption of State laws establishing weight distance or ton mileage taxcs occurs because of the establishment of a national weight distance tax."

I would emphasize that AASHTO's action in adopting this resolution follows extensive objective analysis of both the FHWA cost allocation study, and studies produced on behalf of the American Trucking Associations arguing against the FHWA methodology and conclusions. The conclusion reached by AASHTO with respect to the ATA studies is that they are not convincing, and to the contrary are not supportable under acknowledged engineering principles and empirical evidence. Accordingly, the professional judgment of AASHTO is in support of the work done by the Federal Highway Administration.

In summary, AASHTO is strongly supportive of increasing highway user charges to meet the needs of America's highways, and for capital needs of our mass transmit systems. We strongly believe that any legislation increasing highway user charges and extending the highway trust fund should take into account the Federal Highway Administration's cost allocation study, and significantly increase the relative user charges applied to heavy trucks. While we believe a national weight distance tax is one way to achieve the collection of greater user fees from heavy trucks, we could be supportive of other approaches that will achieve the goal of equity to all classes of users.

Mr. Chairman, it is thus our hope that this committee will take action approving an extension of the highway trust fund, and user charge increase in line with those proposed by the administration. Clearly, the need for this funding is evident to all. Further, we are not talking about a short-term problem, but rather about needs that will continue to exist indefinitely into the future, as we endeavor to keep operational the Federal-aid highway system that the partnership between our Federal and State governments has produced.

The Federal-aid highway program now provides about one-third of the funding spent each year on highways in America, the balance coming from State and local sources. We believe that our State and local governments will be able to provide the matching money needed to utilize the new revenue measures we are urging you to support. A poll recently conducted by AASHTO gives substance to our belief, and we have already reported it to you. For your convenience, another copy of my letter reporting on the poll is enclosed, for the record of this hearing. Attached to that letter is a copy of a presentation made at our recent conference in Orlando, Fla., by Richard B. Robertson, Associate Administrator for Planning and Policy Development at the Federal Highway Administration, providing a preview of their study on the relationship between highways and the nation's economy.

We would point out Mr. Robertson's observations regarding the effect in 1995 on the Nation's economy, if highway funding is not significantly increased. According to Mr. Robertson, by 1995 we could expect a cumulative decline in the gross national product of about $750 billion, and more than 3 million additional labor hours would be required to transport the goods. The latter would be a direct decline in our Nation's productivity, since the additional labor would add nothing to the economy. Finally, we would point up Mr. Robertson's statement that the FHWA has found the net economic return from the additional investment levels analyzed was threefold.

We believe that this important study by the Federal Highway Administration points up the economic value to the Nation of your committee taking action to provide additional funding for our highway needs. Beyond that economic value, the additional money will also decrease travel times, and allow physical improvements that will alleviate vehicle damage and, importantly, help avoid accidents that injure or kill people.

Mr. Chairman, we would also like to comment on the proposal by Secretary Lewis that 1 cent of the equivalent 5 cents increase he is recommending be dedicated to meeting mass transit capital needs. In endorsing the concept of Secretary Lewis' plan, we also endorsed this aspect. We have done so because as transportation professionals responsible for meeting the movement needs of both people and goods, we understand the linkage that exists between highways and public transportation.

In many urban areas, the era of building new highways is over. Instead, we will need to rely on the highway system now in place, with whatever rehabilitation and reconstruction can be achieved essentially within present rights-of-way. In congested areas, we will need to utilize more public transportation if those highways are to continue to function.

In some cities, the continued existance of public transportation is absolutely vital if our people and the goods we use are to have freedom of movement. In most if not all cities, and effective mass transit system can alleviate congestion on our highways. The truth is that we need both highways and transit, and we believe there is a Federal role in meeting the capital needs of both modes.

We have heard arguments by trucking interests that they do not benefit from investment in mass transportation. We cannot agree, especially as to congested urban areas. To the extent mass transit can relieve automobile traffic or avoid it becoming worse, trucks are aided. The time required for truck deliveries are less when congestion can be alleviated, and thus direct cost savings occur.

Mr. Chairman, in approving an extension of the highway trust fund and user fee increases of the kind advanced by Secretary Lewis, we would hope that you would give careful consideration to utilizing a part of the revenue for mass transit capital needs. At the same time, ASSHTO is not supportive of utilizing highway user revenues for transit operating needs. We believe that these costs must be met in other ways.

Finally, Mr. Chairman, we have of course been aware of the concerns expressed by you and members of your committee, and the chairman and members of the Public Works and Transportation Committee, about how the administration of the highway trust fund might be changed. We were pleased to hear yesterday that the problem may be on its way to resolution, and we firmly hope this is true.

The process Congress chooses to utilize for the passage of legislation is of course the prerogative of Congress. Our concern is that whatever new process might be adopted, it not entail additional lengthy public hearings and necessitate long delays in consideration of needed legislation. We believe that both your committee, Mr. Chairman, and the Committee on Public Works and Transportation have acted responsibly over the years to fund our Federal-aid highway needs, and we are confident you will do so in the future.

Mr. Chairman, in summary, we urge that the Committee act favorably to support an extension of the Highway Trust Fund, and that you increase the user fee taxes an equivalent of 5 cents on motor fuels. Further, we hope this can be done quickly, so that a new Federal-Aid Highway program can emerge from this Congress before it adjourns.

American Association of State
Highway and Transportation Officials,
November 26, 1982.

Congressman James J. Howard,
Chairman, House Public Works and Transportation Committee,
Washington, D.C.

Dear Congressman Howard: On November 21, 1982, we forwarded to you a letter containing results from 38 States responding to an AASHTO survey conducted at the request of your committee staff, regarding the ability of the states to utilize funding that might be made available in the Federal-Aid Highway program during fiscal years 1983 and 1984. We now have returns from 46 States, and thus want to provide you with an update of our earlier report, as Congress convenes for its special session.

To repeat the format of our earlier letter, our survey asked for information on two questions. The questions and a summary of the results for the 46 States are as follows:

Question 1. "We have been asked to provide the Congress with information as to what the States could obligate during fiscal year 1983 in the Federal-Aid Highway program, assuming that obligation constraints were increased or removed completely, and that authorizations and appropriations were increased significantly so that funding was also unrestrained. Please complete the following table, with your best estimates at this time for your State."

Summary of Responses—(from 46 States):

[In millions of dollars]

Program	Fiscal year 1983	Fiscal year 1984
Interstate completion	$5,132.2	$5,230.6
Interstate 4R	2,075.6	2,305.0
Interstate discretionary	321.3	305.1
Primary	2,914.4	3,171.0
Secondary	694.5	735.7
Urban	1,327.1	1,514.7
Bridge replacement	1,218.4	1,366.1
Bridge discretionary	489.9	848.8
Safety	492.1	466.9
Other	595.6	735.8
Total	15,261.1	16,679.7

Question 2. "We have also been asked to provide the Congress with information as to how many additional construction contracts the states could let and have underway in the Federal-Aid Highway program within 90 to 120 days after January 1, 1983, in the event Congress should act on a jobs bill during the special session to direct additional funds into the program. Please complete the following table, again with the best estimates at this time for your state. This table is to include only additional contracts, beyond those now planned for letting during this period under existing funding provided through the Federal-Aid Highway program."

Summary of Responses—(from 46 States):

[In millions of dollars]

Program	Number of construction contracts	Estimated dollar amount
Interstate Completion	176	$1,551.9
Interstate 4R	469	896.8
Interstate Discretionary	38	124.0
Primary	1,077	1,613.0
Secondary	727	296.6
Urban	365	324.5
Bridge Replacement	672	332.4
Bridge Discretionary	18	220.7
Safety	688	87.8
Other	140	176.7
Total	4,331	5,624.2

The information contained in these tables represents the States' best current estimate of their capability to utilize funding that might be provided in the Federal-Aid Highway program. In some instances, the States might face some difficulty in adjusting their program and providing match dollars for an accelerated jobs effort, and Federal legislation should take this into account by providing maximum program flexibility and favorable matching arrangements. I would again emphasize the need AASHTO sees for additional funding in both the highway and public transportation programs to meet our existing serious capital rehabilitation requirements, and that because of those requirements we support the concept of Secretary Drew Lewis' proposal for a 5 cent equivalent increase in the motor fuel user fee.

There has been considerable discussion about the economic impact of a transportation funding measure based on Secretary Drew Lewis' proposal, which has now been endorsed by President Reagan. We would like to call your attention to the preliminary results flowing from a congressionally initiated study of the interrelationship between our highway system and the Nation's economy, now being completed by the Federal Highway Administration. Those results establish the negative role that poor highways have on our economy, and the long-range positive benefits to both productivity and the gross national product that will be produced by a more adequate investment in our roads.

While the report, to be titled "Highways and the Economy", has not yet been completed, Richard B. Robertson, Associate Administrator for Planning and Policy Development for the Federal Highway Administration, spoke on its progress during our Association's annual conference in Orlando, Florida on November 22, 1982. I am enclosing a copy of his remarks, and would especially refer you to page 3.

Briefly, Mr. Robertson states that if we continue our current level of investment in the highway program, over 3.5 percent more of the nation's 1995 labor force will be required to transport goods over the system. That is equal to over 3 million more labor hours, to do the same work.

Further, Mr. Robertson states that the FHWA study shows that if we continue our current level of highway funding, there will result a cumulative decline in the Gross National Product through 1995 of about $750 billion. Over this same period, consumer expenditures for highway use will increase by almost 18 percent. In all the investment scenarios studied, on the other hand, it was found that the net economic effects on the nation from investments made in the highway program were at least three times the net capital investment.

The FHWA study also analyzes the effect of maintaining current levels of highway funding on certain segments of the economy. According to Mr. Robertson, the decline in productivity that will continue to occur without a greater investment in our highways can be expected to increase the price of bulk agricultural products that are moved almost entirely over the roads, including grains, cotton and tobacco, by from 6 to 15 percent. In the case of building materials, including stone and clay, iron ore and concrete, price increases of approximately 4 percent can be expected, and for chemicals, paints and canned foods the increases would be in the 2 to 3 percent range. To quote Mr. Robertson, "The study did show overwhelmingly that the nation relies on good highway performance and that the cost of not having it is substantial".

We trust the information provided in this letter will be of use to you and your Committee in the special session, and we stand prepared to be of further assistance wherever possible.

Very truly yours,

FRANCIS B. FRANCOIS,
Executive Director.

Enclosure.

NEW MEANS TO ASSESS THE ECONOMIC IMPACT OF HIGHWAYS ON NATIONAL PRODUCTIVITY BY RICHARD B. ROBERTSON ASSOCIATE ADMINISTRATOR FOR PLANNING & POLICY DEVELOPMENT FEDERAL HIGHWAY ADMINISTRATION

Those of us in the highway community have always known that highways play a crucial role in the creation of national wealth and productivity growth.

For a number of years we have been able to: Relate vehicular travel and the highway program to the Gross National Product; estimate construction-associated jobs generated by the highway program; and study the economic impact on an individual project-by-project basis.

Several things we have not been able to do are: Estimate the impact of the highway program on the economy in general; and nor the implications for its various sectors.

With the general decline of productivity in the U.S. coinciding with the shrinkage of funding, it was thought important to show and reliably quantify the highway role in national productivity. In this regard we sought to study: What effect the condition of the highway system has on travel times and ultimately national productivity as well as the effect on vehicle depreciation; and the impact of highway investment on individual industries as well as the Gross National Product.

We used a data base which consists of a statistically valid and continuously monitored sample of highway segments classified by functional system known as the Highway Performance Monitoring System (HPMS). It was developed and implemented through a cooperative State/Federal effort and allows highway officials to monitor, over time, changes in an array of physical and operating characteristics that contribute to changes in highway performance. There are approximately 59 such data items, including information on pavement type and condition, highway congestion, and geometrics.

These characteristics along with other factors were used to calculate the average operating cost per VMT for each class of vehicle on each functional system. These calculations were made as they existed in 1978—thus giving us the base conditions for that year on each system and, therefore, enabling us to compare future highway performance as simulated by our highway needs and impact models. These models, using the HPMS data base provided by the States, are the basis for future highway needs estimates as contained in our biennial report to Congress.

We translated future highway performance into econometric impact terms by using an econometric model and an input-output model. These types of economic tools measure the current level and structure of economic activity and forecast the future based on mathematical relationships between variables and documented assumptions about future demographics, consumer behavior, changes in the productive sector, and other factors that influence economic growth.

In order to present a range of economic impacts that can be expected if highway capital investment deviates significantly from that required to maintain current highway performance, which we refer to as the base case, two investment and travel alternatives were postulated. The intent was to quantify a probable upper and lower limit of economic effects due to highway investment. The upper limit, or full needs case, represents the highest level of investment and lowest anticipated travel demand. The low investment case represents a continuation of declining real investment and the highest anticipated travel demand. In addition, we simulated an investment strategy that approximates a significant increase in capital investment, but somewhat less than that required to maintain highway performance.

The translation of future impacts associated with the four investment cases into variables used by the economic models was quite detailed and complicated and beyond the scope of this talk. In simplest terms, it involved modifications to vehicle depreciation, enroute inventories, the sources of highway finance, and labor productivity associated with the highway system. Once these modifications were made we could measure the before and after effects of highway investment on the macroeconomic and interindustry results simulated by the models.

We are in the process of finishing this work and will publish it shortly, as "Highways and the Economy", although a summary will appear in the upcoming Highway Needs report.

The results of this study pretty much supported all that we in the highway industry have intuitively felt for a long time about the system's relation to the economy. We found that highway deterioration expected to occur as a result of the continuation of present investment patterns will directly influence productivity and GNP. Over 3.5 percent more of the 1995 labor force will be required to transport goods over the system if we do not maintain conditions. That is equal to over 3 million more labor hours to do the same work, a direct decline in productivity. Cumulative GNP through 1995 will decline by about $750 billion. Consumer expenditures for highway use increased by almost 18 percent by 1995. In all cases the net economic effects were at least three times the net capital investment. The effects of highway deterioration is also felt at the industry level. According to our simulation, industries that rely strongly on the highway system to move their products will be faced with increased costs due to deterioration. In particular, bulk agricultural products such as grains, cotton, and tobacco will experience price increases of from 6 to 15 percent; building materials, including stone and clay, iron ore, and concrete will increase by approximately 4 percent; chemicals, paints, and canned foods will increase by 2-3 percent.

These price increases mean that consumer spending must be diverted from other types of spending in order to meet the more basic needs associated with agricultural products and construction materials. We estimate that pharmaceuticals, apparel, "luxury" food items, furniture, household appliances, and other items of a more discretionary nature will experience declines in sales of from 3 to 8 percent by 1995. While not a true benefit-cost study, the study did show overwhelmingly that the Nation relies on good highway performance and that the cost of not having it is substantial.

We will continue to refine this work and, as I mentioned earlier, some of the results and methodology will be incorporated in the next Highway Needs Report due on the hill in January.

RESOLUTION ON U.S. DEPARTMENT OF TRANSPORTATION TRUCK SIZE AND WEIGHT REPORT

Whereas, the United States Department of Transportation has published a report entitled "An Investigation of Truck Size and Weight Limits" in response to Section 161 of the Surface Transportation Assistance Act of 1978; and

Whereas, the results of the Department of Transportation study indicate that "transport cost savings from improved truck productivity could overwhelm the associated costs of increased highway and bridge wear and tear and truck accident costs"; and

Whereas, the Department of Transportation study implies that the operation of larger trucks could result in an appreciable increase in the frequency and severity of truck accidents, but that further research is needed to more adequately address safety aspects; and

Whereas, the findings of the Department of Transportation report are based on what AASHTO knows to be an erroneous assumption that the states will provide sufficient funds to improve and maintain the nation's highway system at a level of service at least equal to its condition at the time of the study; and

Whereas, the maintenance, resurfacing and rehabilitation costs that would be required to comply with this assumption would have considerable effect on the conclusions and recommendations that are suggested by this Department of Transportation study; and

Whereas, AASHTO identified in its "Program for America's Highways in the 1980's" that the condition of the nation's highways and bridges are continuing to deteriorate more rapidly than they can be improved under existing size and weight limits and that an expenditure of at least double the amount of present outlays will be needed to preserve and protect the current system; and

Whereas, the increase in axle loads from 18,000 pounds single/32,000 tandem to 20,000 single/34,000 tandem in 1974 has resulted in a large increase in the rate of deterioration of the nation's highways and bridges and any further increase in these axle loads will accelerate the deterioration rate and multiply the demand for funds needed to preserve and protect the system; and

Whereas, both at the State and Federal level it appears that there will continue to be a shortfall in funding which will result in an increase in accidents, in circuity of travel and in vehicle operating costs; and

Whereas, the U.S. Department of Transportation cost allocation study shows that the heavier vehicle classes are not paying their fair share of highway user costs for the existing system.

Now therefore, the American Association of State Highway and Transportation Officials, acting at its November 21, 1982, meeting in Orlando, Florida, opposes further increases in truck size and weight limits beyond AASHTO's approved policy and opposes mandatory application of federal permissive size and weight limits. AASHTO recommends adequate funding be made available to restore and maintain the nation's highways and bridges to carry present size and weight limits and that an equitable allocation of costs among the various classes of highway users be implemented to assure that each type vehicle is contributing its fair share.

RESOLUTION ON U.S. DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY COST ALLOCATION STUDY

Whereas, the United States Department of Transportation has completed the "Final Report on the Federal Highway Cost Allocation Study" in response to Section 506 of the Surface Transportation Assistance Act of 1978; and

Whereas, the study methodology has been reviewed and evaluated and is considered to be an improvement over past cost allocation studies, in that it takes into account resurfacing and rehabilitation to preserve and protect existing highways; and

Whereas, the study is based on projected needs which are generally in accord with the American Association of State Highway and Transportation Officials' "Program for America's Highways in the 1980's"; and

Whereas, the study appears to be unbiased in allocation of cost among the various classes of vehicles to attain equity and reflects the cost imposed on the highway system by that class; and

Whereas, the findings of the report show that heavier vehicles are not paying their fair share of highway costs and increased user charges are recommended on the heavier type vehicles; and

Whereas, the study recognizes that highway user taxes should be easily administered and should be graduated as a function of weight rather than remaining constant across all weights, and also recognizes that a weight distance tax could contribute significantly to a fairer and more efficient tax structure.

Now Therefore, the Policy Committee of the American Association of State Highway and Transportation Officials acting at its November 21, 1982, meeting in Orlando, Florida, concurs in the findings of the Federal Highway Cost Allocation Study and recommends that legislation be enacted as soon as possible to assure that the various classes of highway users pay their fair share of the cost. It is further recommended that a national weight distance tax be considered as a more equitable tax approach with the administration and collection to be structured at the state level with the states being reimbursed for their expenses in administration and collection, provided that no preemption of state laws establishing weight distances or ton mileage taxes occurs because of the establishment of a national weight distance tax.

FINAL REPORT ON THE FEDERAL HIGHWAY COST ALLOCATION STUDY BY AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

INTRODUCTION

A sound transportation system is a prerequisite for a prosperous, growing nation. Transportation plays a central role in our national economy, as attested to by the fact that annual expenditures for transportation currently account for about one-fifth of our gross national product. Within our national transportation system, highways play a key role as a common denominator connecting all other modes of transportation. Highways are and will continue to be the backbone of our Nation's transportation system.

At the present time, we are faced with a critical need for additional funding to preserve the investment in our Nation's highways and bridges. We can no longer ignore the serious problems affecting our highway system. Efforts to complete the Interstate System must be intensified and resources to restore critical bridges and aging highways substantially increased. Further, the preservation of our Interstate and Primary Highway Systems must be given a higher priority if we are to ensure the integrity of these vital highways and protect our capital investment.

Nationally, Federal-aid highway authorizations have grown from $5.4 billion in 1975 to almost $7.0 billion in 1981, a 29 percent increase. In terms of purchasing power, however, there has been a startling decline in the program. Based on the FHWA Construction Cost Index, the 1981 authorization is worth only $4.3 billion in 1975 dollars, or a 20 percent decrease in the program over this period. Thus, the real level of the program has clearly not kept up with the needs.

Detailed estimates of our national highways needs and recommendations on how to meet these needs have been provided in "A Program for America's Highways in the 1980's", adopted by AASHTO in November 1980. AASHTO believes that progress toward meeting these needs requires that the Federal-Aid Highway Program be immediately increased to the level of $12 to $14 billion per year, with further increases to follow annually. We believe that this is a conservative position, and that, in fact, to fully meet the realistic needs now existing on our Federal-Aid Highway System will require a program in the range of $16 to $18 billion per year, or over twice the size of our present effort.

While there is virtually unanimous agreement on the present need for increased highway funding, the issues at this time revolve around the question of how much of the increase each class of highway users should be asked to pay. The allocation of costs among highway users is an area that has received an increasing amount of attention recently with the completion of the new Federal Highway Cost Allocation Study and several state studies. AASHTO believes that the new Federal Study makes an important contribution to the state-of-the-art in cost allocation and is in general agreement with the methodology and findings of the study.

The remainder of this paper presents an examination of the methodological approach and results of the Federal Study. The issue of an appropriate highway user tax structure to capture the cost responsibilities determined by the Federal Study is critical and remains to be addressed.

BASIC ASSUMPTIONS OF THE FEDERAL HIGHWAY COST ALLOCATION STUDY

With the exception of the methodology used to allocate costs, the two most important determinants of the results of a cost allocation study are the expenditure program assumed and the projections of future traffic by vehicle class.

Estimates of roadway capital costs were made for both the base period (1976–78) and forecast period period (1980–95; 1985 as target year) in the Federal Study. The base period highway project cost analysis was based on actual federal expenditures from the Highway Trust Fund for this period. The forecast period costs used in the study are estimates of the costs of completing the Interstate Highway System gaps and the capital costs required to maintain service levels on existing highways.

Table 1 gives the estimated forecast period distribution of total federal highway capital costs by major category. The figures shown are for a $13 billion annual expenditure level, the midpoint of the $12 to $14 billion level recommended by AASHTO for immediate implementation.

For the purpose of allocating costs to the various highway user classes, right-of-way, grading, and administration and planning costs were separated out from the major categories of new construction, reconstruction, and bridges. When these costs are apportioned back to the major categories, the figures in the table imply a program of approximately $3.0 billion for new highway construction, $6.5 billion for reconstruction and rehabilitation of highways, and $2.5 billion for bridges. This breakdown is generally similar to the program goals and priorities endorsed by AASHTO in "A Program for America's Highways in the 1980's", November 1980. The expenditure distribution utilized in the Federal Study appears to be an accurate reflection of the future requirements of the Federal-Aid Highway Program as perceived by AASHTO.

The traffic data and projections used in the Federal Study were derived from a wide variety of sources. Estimates of the vehicle fleet and vehicle miles of travel by vehicle class were made for the base year 1977 and projected to 1985, 1990 and 1995. The projected 1977–85 average annual growth rates for passanger vehicles, single-unit trucks, and combination trucks are 2.3 percent, 1.1 percent, and 4.0 percent, respectively. Vehicle miles of travel (VMT) for all vehicles is forecast to increase at an average rate of 2.3 percent per year over this period. These projected growth rates are similar to those forecast by several other recent studies and appear to be generally reasonable.

THE ALLOCATION OF COSTS AMONG HIGHWAY USERS

The new Federal Highway Cost Allocation Study represents a significant departure from and improvement over the earlier 1965 Federal Study. The authors of the study are to be commended for their careful work and willingness to try new methods.

The 1965 Study used the traditional six-step incremental approach to allocating highway costs. Under this approach, the analysis of construction costs is developed in terms of a basic highway (or increment), which is defined as the highway design required to accommodate passenger cars and other light vehicles only. The cost of providing this basic highway is treated as a common cost to be shared by all vehicles, typically on the basis of their axle miles of travel. The cost of each additional increment beyond the basic highway is then the responsibility of all those vehicles requiring it—that is, all those vehicles having axle weights equal to or greater than the axle weight requiring this increment. Thus the heaviest axle weight class is solely responsible for the cost of the final increment and shares in the cost of all previous increments.

Despite the intuitive appeal of the traditional incremental method, there are a number of conceptual problems with this approach. The most serious of these is that this method favors the heavier axle weight classes by giving them the benefits of the "economies of scale" inherent in the relationship between required pavement thickness and the number of equivalent single axle loads (ESAL's) applied over the design life of a pavement. This relationship is such that the number of ESAL applications accommodated by the addition of an extra inch of pavement thickness is much less for thin pavements than for thick pavements. By conceptually beginning with the basic highway and then adding increments of pavement thickness to accommodate successively heavier axle weights, the traditional incremental method automatically accords the economies of scale in pavement design to the heavier vehicles. Thus this approach fails to follow an equitable application of design theory by charging one set of axle weights a different thickness requirement per-ESAL than another set of axle weights.

The recommended approach in the new Federal Study allocates new pavement costs by a modified incremental method. This approach, referred to as the minimum pavement thickness method, allocates all new pavement costs above the cost of a minimum feasible pavement thickness on the basis of the relative ESAL's contributed by each axle weight class. The cost of the minimum pavement thickness is considered to be a residual cost and is shared by all vehicle classes on the basis of their relative miles of travel.

The minimum pavement thickness method avoids the traditional incremental method's assignment of the economies of scale in pavement design to the heavier axles. By assigning new pavement costs above the minimum pavement thickness cost in direct proportion to the average ESAL value of each axle weight class, the minimum pavement thickness method effectively allows each vehicle class to share in these economies of scale. Thus, AASHTO believes that the approach used in the new Federal Study represents a more equitable application of pavement design theory than the traditional incremental approach.

The results of a cost allocation study can be highly dependent on the particular methodology utilized to assign costs. As illustrated by Table 1, however, new pavement costs account for only a minor portion (5.3 percent) of total program costs in the Federal Study, so that the method of allocating these costs has only a small effect on the overall cost allocation results.

The most important determinant of the overall cost allocation results of the Federal Study is the study's treatment of pavement rehabilitation costs. These costs account for a significant portion (38.4 percent) of total projected federal program costs. Under the traditional incremental approach, major pavement rehabilitation costs are assigned in the same way as new pavement costs. The recommended approach in the Federal Study, on the other hand, utilizes a damage function approach which concentrates on the different types of pavement distresses attributable to each vehicle class and on how important each type of distress is to the decision process for capital outlays. Each major type of pavement distress is modeled separately as a function of traffic and other variables. Although more sophisticated, this method is essentially similar to the approach used in many recent state cost allocation studies.

The assignment of pavement repair and restoration costs is dependent upon both the method used to allocate the load-related portion of these costs and on what proportion of these costs are considered to be load versus nonload-related. In this light, the trucking industry has recently commissioned two studies, one by Counsel Trans and the other by the Texas Transportation Institute, which purport to show that environmental factors are the principal influence in pavement deterioration and that increased axle loadings are much less a factor that is commonly believed by highway engineers. These studies have been reviewed by several of the AASHTO member departments. These reviews concluded that there are several problems with the studies and that their stated conclusions are not fully supported. While environmental factors do play a role in pavement deterioration, there is no reason to believe that they are the principal cause of the deplorable condition of many of the nation's highways. On the contrary, the overwhelming weight of evidence indicates that frequency and weight of axle load applications are the primary factors which determine how rapidly a highway will deteriorate.

Neither the distress models nor the distress weighting schemes used in the Federal Study are the final word in the analysis of the causes of the need for pavement rehabilitation. This is an area in which futher work needs to be done as more data is collected on the precise causes of pavement deterioration. Despite this, however, AASHTO believes that the approach taken in the Federal Study represents a step in the right direction and an improvement over past approaches.

New and replaced structure costs are assigned incrementally in the Federal Study recommended approach. In the case of replaced structures, the cost of each increment is partially assigned in proportion to the degree to which the replaced structure has deficient load-bearing capacity. The cost of rehabilitating existing bridges is considered as a residual or common cost. Many of the recent state cost allocation studies have attributed at least some portion of these costs directly to trucks, so that the Federal Study's treatment of bridge repair costs as residual costs possibly understates the cost responsibility of heavy vehicles. The effect on the overall results of the study, however, is probably minor.

The Federal Study assigns all residual or common costs on the basis of vehicle miles of travel (VMT). This differs somewhat from the earlier 1965 Federal Study where axle miles of travel were used to assign residual pavement costs and vehicle miles were used in the assignment of all other residual costs. Similarly, most recent state studies have assigned some portion of residual costs on the basis of axle miles of travel and/or passenger car equivalent-weighted VMT. The Federal Study's use of VMT to assign all residual costs pr[illegible] understates the cost responsibility of heavy vehicles to some extent, although [illegible] effect is relatively minor.

Table 2 gives the cost allocation [illegible] new pavements, rehabilitated pavements, bridges, and all other costs. The [illegible] column of the table shows the overall costs allocation results for the Federal S[illegible]mmended approach.

The cost assignments shown in the [illegible] based on a $13 billion annual expenditure level, the midpoint of the $1[illegible]n level which AASHTO recommends be implemented immediately. [illegible] Federal Study determined that passenger vehicles (including buses) [illegible]sible for 58.9 percent and trucks 41.1 percent of total 1985 program costs. The table also illustrates the major role played by pavement rehabilitation costs in determining the overall cost allocation results of the Federal Study. These costs are particularly important in determining the assignment of costs to the heaviest truck class.

Table 3 presents a 1985 revenue comparison between the recomended cost allocation approach and the existing Federal tax structure and rates. The status-quo approach will raise an estimated $7.3 billion from the array of user charges and excise taxes currently in force. The recommended approach raises $13.0 billion for an expanded program and, at the same time, adjusts tax rates. As the table shows, the recommended 78.1 percent increase in total program revenue is not shared equally by all vehicle classes. This, of course, is due to the shift in cost allocation shares from light and medium trucks to heavy trucks as reflected in the tax structure change percentages in the right-hand column of the table.

CONCLUSIONS

The authors of the new Federal Highway Cost Allocation Study are to be commended for their willingness to apply new and improved methods to the allocation of costs among highway users. While the Federal Study does not represent the final word in highway cost allocation methodology, it does represent an important step toward a more equitable assignment of Federal highway costs.

The recommended Federal approach to the allocation of pavement costs represents a significant improvement over the methodology employed in previous Federal studies. Recognizing the trend toward preservation of our existing highway investment, the Federal Study has devoted a good deal of careful analysis to the question of how best to allocate pavement rehabilitation costs. While further work needs to be done in this area, the approach taken in the Federal Study appears to be the best possible at this time. Overall, the approach taken in the Federal Study appears logical and the results reasonable.

It is AASHTO's position that the Federal Study represents a significant improvement in the state-of-the-art in highway cost allocation and that the study results should be endorsed by Congress and incorporated in any new legislation dealing with Federal highway user taxation.

TABLE 1.—DISTRIBUTION OF FUTURE FEDERAL-AID HIGHWAY COSTS BY EXPENDITURE CATEGORY

[In billions of dollars]

Category	Costs	Percent of total
Pavements:		
New	$0.69	5.3
Reconstructed	4.99	38.4
Subtotal	5.68	43.7
Bridges:		
New	1.19	9.2
Replaced	1.12	8.6
Repaired	0.25	1.9
Subtotal	2.56	19.7
Other:		
Right-of-way	0.80	6.1
Grading	2.48	19.1
Administration, Planning	0.31	2.4
Miscellaneous	1.17	9.0
Subtotal	4.76	36.6
Grand total	13.00	100.0

TABLE 2.—COST ASSIGNMENTS UNDER FEDERAL RECOMMENDED APPROACH FOR A $13 BILLION FEDERAL PROGRAM IN 1985

[In millions of dollars]

Vehicle class	New payment costs		Rehabilitated payment costs		Bridge costs [1]		All other costs [2]		Total costs	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Passenger Vehicle (Auto, Motocycle, bus, van, pick-up	$330	(47.1)	$1,575	(30.3)	$1,625	(65.0)	$4,186	(87.2)	$7,656	(58.9)
Light trucks (Single unit under 26 KIP)	20	(2.9)	207	(4.1)	95	(3.8)	124	(2.6)	446	(3.4)
Medium trucks (Single unit over 25 KIP, combinations under 70 KIP)	95	(13.6)	1,019	(20.4)	293	(11.4)	205	(4.3)	1,612	(12.4)
Heavy trucks (Combinations over 70 KIP)	255	(36.4)	2,259	(45.2)	487	(19.5)	285	(5.9)	3,286	(25.3)
Total	700	(100.0)	5,000	(100.0)	2,500	(100.0)	4,800	(100.0)	13,000	(100.0)

[1] Based on a bridge program of: New bridges—$1.2 billion; Replace bridges—1.1 billion; and Repair bridges—0.2 billion.

[2] Includes right-of-way, grading, administration and planning, and miscellaneous costs.

TABLE 3.—COMPARISON OF RECOMMENDED PROGRAM AND EXISTING TAX STRUCTURE, 1985 REVENUE LEVELS

[In millions of dollars]

Vehicle class	Recommended Federal approach (Min. Thickness)	Existing tax structure and rates	Increase		Percent of increase due to	
			Dollars	Percent	Program increase	Tax structure change
Passenger vehicles (auto., motorcycle, bus, van, pickup)	7,656	4,217	3,439	81.6	78.1	2.0
Light trucks (single unit under 26 KIP)	446	427	19	4.4	78.1	(41.9)
Medium trucks (single unit over 26 KIP, combinations under 70 KIP)	1,612	1,437	175	12.2	78.1	(37.0)
Heavy trucks (combinations over 70 KIP)	3,286	1,219	2,067	169.6	78.1	51.5
Total	13,000	7,300	5,700	78.1	78.1	0

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to present Farm Bureau's comments concerning the financial needs of the Highway Trust Fund for fiscal years 1983 through 1986. We also wish to express our concern in regard to "The Highway Revenue Act of 1982" now under consideration by your Committee.

Farm Bureau is the nation's largest general farm organization representing more than three million member families in 48 states and Puerto Rico.

Farm Bureau's policy regarding the Federal Highway Trust Fund as adopted by the voting delegates of the Member State Farm Bureaus at the American Farm Bureau Federation's annual meeting in January 1982 states: "The Federal Highway Trust Fund should be maintained as now constituted and no further diversion of these highway funds to nonhighway-related purposes should be permitted. The Interstate Highway System should be completed at the earliest possible time. The Trust Fund should then be used for upgrading and rehabilitating the Federal-aid system."

Mr. Chairman, we support the equitable principle that highway users should pay for the cost of constructing, maintaining, resurfacing, rehabilitating and repairing interstate highways and bridges, many of which are reaching the end of their design life every year. Although highway conditions vary widely among the states, recent reports confirm the national trend that our major highway system is rapidly deteriorating in many sections of the country and that there is an urgent need for additional funding if we are to meet the nation's highway transportation needs during the 1980's.

Farm Bureau supports many of the provisions in the legislation already approved by the House Public Works and Transportation Committee. These provisions include the four-year funding authority; uniform maximum weight, width and length standards for trucks operating on the Interstate System; the enforcement drive against drunk driving; and the national driver registration system. These are all meritorious provisions and we hope they are favorably approved by the Congress.

We are opposed, however, to any provision in the bill that would permit the diversion of highway user revenues for such purposes as mass transit. Since 1956 Interstate construction has received the highest priority, accounting for about 60 percent of the total highway program funding. Although 94 percent of this system is open to traffic, the cost to open the remaining sections and to upgrade older sections to current standards is estimated at about $54 billion, or about 40 percent of the estimated total cost of the system. Substantial investment has been made in our highway system; however, much more needs to be invested in the present system to permit any diversion of Highway Trust Funds to mass transit.

Our position in regard to mass transit should not be construed as being opposed to assisting local and state governments with financing capitol expenditures for public transit, since we recognize that public transit is an important service in many urban areas. We, therefore, suggest that the Administration propose a Public Transit Trust Fund that would provide an equitable and reliable source of revenue. Users of public transportation have an interest in the transportation needs of the cities and are willing to pay their fair share of necessary financing.

We are opposed to holding the future of the nation's highway program hostage to support for public transit. Each should stand on its own merits.

The main provision of "The Highway Revenue Act of 1982," is to increase the existing gasoline and diesel fuel tax from 4 to 9 cents a gallon. This represents a 125 percent increase in the gasoline tax. We believe the increase is excessive. Raising the gasoline tax from 4 to 7 cents would represent a 75 percent increase which we believe is appropriate at this time.

We thank you for consideration of our views on this legislation.

[Mailgram]

BARBER-GREENE CO.,
Aurora, Ill., December 1, 1982.

DANIEL D. ROSTENKOWSKI,
Rayburn House Office Building,
Washington, D.C.

We greet current enthusiasm for gas tax increase as a great boon for America in preserving one of our greatest assets—the transportation network of the country—to say nothing of the benefits from the jobs it will provide. This measure will not cure the problem but will give great assistance in reducing the ultimate cost of this vital rehabilitation. Thank you for your leadership and support.

A S. GREENE, *Chairman.*

BAY AREA KENWORTH CO.,
San Leandro, Calif., December 2, 1982.

Re new highway tax bill.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
Washington, D.C.

DEAR SIR: We are very concerned about the proposal in the new Highway Tax Bill to impose a discriminatory 12 percent excise tax on Class 8 trucks and parts while removing the excise tax completely on all other trucks and parts.

You may not be aware that slightly smaller trucks (Class 6 and 7 for G.V.W. purposes) very often operate under conditions involving the same maximum gross combination weights as do Class 8 vehicles. Also, you may not realize that over 45 percent of the parts used in Class 8 trucks are interchangeable among all Classes and therefore it would be an administrative nightmare to keep track of which parts went into Class 8 vehicles and were subject to excise tax and which parts went into other trucks and were not subject to this tax, since the parts are absolutely identical.

We, as well as most other truck dealerships, are struggling for survival during the current economic slow down and such an unfair and discriminatory excise tax as proposed would greatly lessen our chance for survival.

We ask that you consider either retaining the excise tax on all classes of trucks and parts or dropping the tax completely on all trucks and parts.

Your immediate consideration of our request would be appreciated.

Very truly yours,

DALE D. REED, *President.*

CHAMBER OF COMMERCE,
UNITED STATES OF AMERICA,
Washington, D.C., December 1, 1982.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the over 244,000 members of the U.S. Chamber of Commerce, I respectfully urge you and the members of the Ways and Means Committee to support the Administration's bipartisan proposal to increase the federal gasoline user fee by the equivalent of 5 cents a gallon to finance the repair, rehabilitation and completion of our nation's roads and bridges through the Highway Trust Fund mechanism.

The user fee on gasoline and diesel fuel has been 4 cents a gallon since 1959. Since that year, construction costs have risen 300 percent and the purchasing power of current revenues has been cut by three-fourths. Also, during the 1980's, 50 percent of our primary road system will reach the end of its design life. Ten percent of the Interstate System needs immediate resurfacing and over 40 percent of our bridges are now judged to be deficient. Because of poor road conditions, motorists' driving costs will increase by 20 percent by the mid-1990's and driving time by 20 percent unless action is taken.

We also understood that Congress may examine waiving Davis-Bacon Act coverage as it applies to programs funded under the proposed increase. We urge you to support such an effort. By waiving Davis-Bacon requirements, thousand of additional jobs can be created and more efficient use of the increased user fees paid by motorists can be accomplished.

The U.S. Chamber and our national federation of business people working through state and local chambers of commerce were among the key supporters for the Highway Trust Fund in 1956. That action helped give us one of our greatest economic resources, a national highway system second to none. Today that system needs major repair. The U.S. Chamber believes it is in our best interest as citizens and business people to support responsible efforts to maintain our road network.

I will appreciate your consideration of our views, and I request that this letter be included in the hearing record.

Cordially,

HILTON DAVIS.

DEPARTMENT OF AGRICULTURE,
STATE OF COLORADO,
Denver, Colo., December 2, 1982.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: Alcohol blended fuel is becoming an important part of the Nation's market for surplus grain as well as an alternative to foreign fuels. Colorado is one of 34 States which have supported the alcohol fuels industry by reducing the state excise tax. I'm writing in support of an extension of the four cent federal excise tax exemption for alcohol blended fuels and I encourage you to include the five cent increase now being proposed in that tax exemption.

If I can of of any assistance in this issue, please feel free to contact me.

Sincerely,

J. EVAN GOULDING, *Commissioner*

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER FROM PUERTO RICO

Mr. Chairman, Members of the Committee on Ways and Means, I welcome the opportunity to present this statement in strong support of the present proposals circulating in the Congress, and supported by the Administration, to use an increase in the highway user fee for the rehabilitation, construction and maintenance of our Nation's highways and related road systems.

The economic stimulus is, indeed gratifying news to Puerto Rico for we believe the construction and job creation in construction related industries comes at a critical time in the economic development of Puerto Rico.

Like the rest of the Nation, the need for increased maintenance of a road system, and the parallel need to move ahead with the much-needed rehabilitation of the Island's highways, bridges and bus systems are extremely important. The development of our local infrastructure and road systems are of high priority to our Island government which, with the exception of the interstate highway system, in which we do not at present participate, receives federal assistance for highway construction and maintenance.

An increase in the user fee and resultant increase in our highway apportionment from the Federal Highway Administration's programs will come at a time when our Island's unemployment is at a staggering level of 22.8 per cent, and may be the necessary long-term program to address our immediate highway and transit needs.

Our need in Puerto Rico matches the Nation's needs to improve and maintain our vital infrastructure, and to provide the capital investment necessary to advance current federal highway and transit programs to a level adequate to meet existing and future needs.

As the Administration has pointed out in response to initiatives in Congress to move ahead with this economic stimulus program, the increase in user fees will bring about some equity in a system which was established in 1961, at a time when new construction was a priority need for the country. Now, the major focus of the program that has been proposed will be on the rehabilitation and replacement of highway facilities.

H.R. 6211, as reported by the House Committee on Public Works and Transportation, will be an appropriate vehicle for this new proposal designed to give the needed stimulus to meet the highway and transit needs of the country.

I am pleased to note that the Senate, by putting together a cooperative agreement of four different Committee jurisdictions, has expressed its willingness to move ahead in a spirit of cooperation with the House leadership in recognizing that, in a time of need, the Congress of the United States is able to respond quickly, efficiently, and with an appropriate legislative measure to meet a critical need in Puerto Rico and throughout the Nation.

As an Island, Puerto Rico has specific transportation problems. We are absolutely dependent on air and waterborne transportation for the movement of goods from the U.S. mainland and solely dependent on air transportation for the movement of passengers between the Island and the States.

The improvement of highways in Puerto Rico is essential to the growth and economic recovery of the Island. Our local industrial complexes, many of them U.S. mainland based firms, depend almost exclusively on highway transportation for the movement of raw materials, finished products and labor to and from these industrial sites. And, of course, most of these raw materials are imported from the mainland United States—from every State in the Union—and reach the major port area, in the metropolitan areas of San Juan, before being dispatched inland and across the Island.

The legislation being considered in Congress comes at a time when our Puerto Rico Highway Authority—aware of obligational limitations imposed on Puerto Rico—was forced to modify its important five-year priority program. This eliminated some projects of importance that might now be restored.

The Puerto Rico Department of Transportation and Public Works is at present operating under severe budget restraints at a time when roads and bridges restoration and repairment work is urgently needed. Some figures are needed to highlight the need. Between the years of 1966–80, the following indicators should be noted:

1. Motor vehicle registration rose from 295,565 to 1,133,000;
2. The highway network grew from 5,848 to 7,775 miles;
3. Vehicle travel increased from 3.8 to 8.6 billion miles;
4. There is now 1 vehicle for every 3 residents on the Island; and
5. Taxable gasoline consumption rose from 286.2 to 680.5 million gallons.

Puerto Rico receives a maximum of $30 million a year from the Federal Highway Trust Fund and this figure represents only 14 percent of the total budget of the budget of the Puerto Rico Highway Authority. The balance of the funds are raised by toll collections, taxes of motor vehicle fuels, and borrowing from a line of credit that is paid from revenue bond issues.

The Department is in the process of revising their 5-year plan in anticipation of the enactment of this legislation, to establish an order of priority for projects. We look forward for the work to be done and the jobs that will be created under this proposal. Although a more comprehensive and detailed jobs programs are crucial and needed to get our Nation's unemployed working again, this proposal is a welcomed first step and should be quickly approved by the Congress.

Finally, I would like to point out that the Administration's Caribbean Basin Initiative was designed to include Puerto Rico as a willing and able partner, and to greatly expand our Island's ability to serve as a warehouse and distribution center for many of the Islands and Nations in our region. This would facilitate cost reductions which can stimulate trade and production throughout the area, but I would like to emphasize that none of this is possible without the parallel development of our Island's highways and transit needs.

For these reasons, I welcome the opportunity to submit this statement to the legislative proposals being discussed which will address these highway and transit needs with the attendant increase in construction and construction-related jobs they will bring to the Nation and to Puerto Rico.

I urge this Committee to take prompt action to enact this legislation.

Crider's Tire Service,
Chatham, Va., December 2, 1982.

Hon. Dan Rostenkowski,
House Ways and Means Committee,
Washington, D.C.

Dear Senator Rostenkowski: I am strongly opposed to the proposed tax increase of four hundred percent or twenty five cent per pound tax on tread rubber. Such an increase would make the cost of a retreaded tire close to that of a new one.

In my opinion the proposed increase would be unfair to the consumer as well as the small retreader. With retreads some of our natural resources are being used by the consumer. Recycling good casings saves a tremendous amount of oil which synthetic rubber is made from. I honestly believe that if this tax is imposed that most small retreaders will be put out of business plus adding thousands of people to the list of the unemployed.

Sincerely,

J. Haywood Crider.

Congress of the United States,
Washington, D.C., November 24, 1982.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
Washington, D.C.

Dear Mr. Chairman: During the lame duck session beginning November 29 your Committee will have under consideration the proposal for raising the federal tax on gasoline to support transporation and the repair of roads and bridges.

Enclosed is the Resolution in support of this increase enacted by the Santa Clara County Highway Financing Task Force Commission, Santa Clara County, California, Joseph Gadano, member, which I respectfully request be made a part of your hearing record and called to the attention of your Committee members.

Sincerely,

Don Edwards,
Member of Congress.

RESOLUTION TO SUPPORT A USER FEE LEVIED ON GASOLINE TO INCREASE LEVEL OF SUPPORT FOR TRANSPORTATION BY $5 BILLION PER YEAR

Whereas the Federal levy of 4 cents per gallon and other related user fees have not been increased since they were imposed in 1956; and

Whereas revenues derived from this source are decreasing because the volume of gasoline used is decreasing; and

Whereas the buying power of the revenues derived has been seriously eroded by inflation; and

Whereas the economic and fiscal well-being of our local governments; industry and commerce depend upon continued development of an adequate transportation system; and

Whereas great benefit to depressed construction, related industries, and their labor force would be derived through stepped-up highway and transit funding; and

Whereas numerous important highway and transit projects in Santa Clara County are critically dependent on federal highway and transit programs; and

Whereas the need for increased Federal funds for transportation purposes of national, state and local importance has been established and accepted;

Now, therefore, be it resolved that: the County supports an increase in the Federal user fee on gasoline and other related fees totaling at least $5 billion per year; and further supports provisions to return revenues to source in amounts that would strengthen and continue in future years: the amount for urban system programs (currently designated Federal Aid Urban) and which would additionally provide funds directly to cities and counties for local street and road purposes.

STATEMENT OF FRIENDS OF THE EARTH, WASHINGTON, D.C.

INFRASTRUCTURE AND THE ENVIRONMENT

The bipartisan zeal with which Congress and the Administration have embraced proposals for a 5-cents-per-gallon fuel tax increase has obscured serious and controversial provisions of the tax and transportation measure. While press reports have justifiably repeated the litany of crumbling highways and collapsing bridges, little mention has been made of the fact that billions of dollars will go to build new highways rather than to repair deteriorating transportation infrastructure. Additional problems exist in the changes made by the Administration proposal in the protection afforded to national parks, and historic areas, and in major changes in regulatory procedure.

Interstate construction.—While the Interstate highway system is 95 percent complete, the remaining 5 percent will cost between $39 to $50 billion to complete. The gas tax bill provides funding at a rate of $4 billion or more per year to the most expensive and least necessary segments of the entire system, while legitimate maintenance needs go unmet. Many of the remaining projects cost over $100 million per mile. This new level of funding will encourage the construction of many of these projects that could otherwise be cancelled.

Environmental provisions.—The Administration proposal would remove the "4f" protection afforded to national parks and other environmentally significant areas, and put primary responsibility of highway construction in our sensitive and valuable public lands into the Department of Transportation, rather than in the agency responsible for protecting the natural values of the park, forest, or historic area. In addition major regulatory changes in the Administration proposal would compromise the procedures for environmental impact review, and interagency permit procedures.

Because of the overwhelming and legitimate maintenance needs of the highway bridge and transit system, Friends of the Earth cannot support legislation that provides major funding support and regulatory relief for new construction projects. There are, however, major portions of the Administration initiative that deserve support.

Tax equity and truck user charges.—The Administration bill recognizes the overwhelming role that heavy trucks play in the deterioration of the Nation's highways. Increasing the tax burden on heavy trucks is the only way that an increase in highway user fees can be fair. Increasing the gas tax alone without a major increase in truck fees would constitute an increased subsidy to the one class of highway users most clearly responsible for current highway deterioration. The Administration position is in keeping with the findings of the Federal Cost Allocation Study, and the findings of numerous recent state studies of cost allocation and user tax equity.

Transit funding.—The Administration bill includes transit funding from the proceeds of the highway trust fund. This should be expanded to include trust fund revenues for the trade-in of highway projects for transit spending. This is a significant first step toward adequately providing for the overall transportation needs of the nation.

Jobs, infrastructure and the environment.—The passage of a transportation bill will create jobs, but the important decisions before the Congress in considering this legislation are whether in creating jobs our existing infrastructure will be maintained and restored, or whether frivolous new construction projects will use up the limited capital provided by the tax increase. Congress must decide whether basic environmental protection provisions will be preserved or abandoned, and whether the revenue that must be raised will be raised in an equitable fashion. In considering these questions members must remember that these proposals come at a major turning point in transportation policy, and the decisions made in the next weeks will affect the shape of our nation for years to come. It is a time for considered and deliberate action.

CONGRESS OF THE UNITED STATES,
Washington, D.C., November 30, 1982.

Hon. CHARLES L. SKINNER,
Managing Director, Georgia Motor Trucking Association,
Atlanta, Ga.

DEAR CHARLIE: Thank you very much for your recent letter regarding your concern over the porposed five cents per gallon federal fuel tax.

As a matter of information, the vehicle for consideration of this proposal is H.R. 6211, the Surface Transportation Assistance Act of 1982. The House Ways and Means Committee will meet tomorrow to consider the federal fuel tax portion of this legislation, and I will be sure to forward a copy of your remarks to the Chairman of that Committee.

Thank you again for advising me of your position on this issue as it impacts the trucking industry, and with kindest regards, I am

Sincerely,

BO GINN.

ATLANTA, GA., *November 23, 1982.*

Hon. RONALD GINN,
House of Representatives,
Washington, D.C.

DEAR BO: Trucks now pay add-on federal highway taxes which tack $1,746 a year onto a typical tractor-trailer unit. In the interest of helping provide needed additional funds, our industry proposes truck tax adjustments (including doubling the $3 per 1,000 lb. truck tax to $6) which would increase the add-on figure to $2,300.

Secretary Drew Lewis is pushing for truck tax increases which would result in a back-breaking increase of $5,000. Economically depressed truck operators simply cannot "live with" such an increase.

Our proposal, like Secretary Lewis' includes a general federal fuel tax increase. He proposes an additional 5 cents per gallon. Ours proposes an additional two cents now and another one cent in 1985. Our total tax increase proposal is contingent upon size and weight relief which would mandate, chiefly, changes in the laws of a few states to provide much-needed uniformity nationally. There is nothing in the "size and weight relief" package which would allow heavier trucks in Georgia.

Mr. Lewis is pushing his proposals as a jobs program. If his excessive truck tax increase proposals are adopted, there will be more trucking industry personnel put out of work than personnel hired to repair the highways!

We urgently ask that you hold the line against any special truck tax increases higher than those which we propose, and that you insist that the provisions to mandate uniform size and weight limits be enacted also.

Cordially,

CHARLES L. SKINNER,
Managing Director.

STATEMENT OF JERRY FELDMAN ON BEHALF OF THE INTERNATIONAL TAXICAB ASSOCIATION

Mr. Chairman, my name is Jerry Feldman. I am President of Checker Taxicab Company of Chicago, Illinois and the immediate past President of the International Taxicab Association (ITA). ITA, on whose behalf I am appearing here today, is the sole trade association in the taxicab industry, representing taxicab operators in every state and in all major cities of the United States. The members of ITA own or control over half of the principal corporations which operate taxicabs in the United States.

I am here today to give you the views of ITA not on the merits of the proposal to increase the excise tax on gasoline from 4 to 9 cents, but rather upon the anticipated effect of such a tax increase upon the taxicab industry, an effect which will be financially disastrous for our industry absent a modification of a section of the Internal Revenue Code or, at a minimum, an extension of its current provisions.

In 1978, Congress enacted what became Section 6427(e) of the Internal Revenue Code, which permitted taxicab companies to obtain a refund of federal excise taxes on gasoline, diesel and other fuels used in taxicabs if the following conditions are met: (1) the company must provide shared riding; (2) company vehicles must meet EPA fuel economy standards; and (3) the company must be the ultimate user of the fuel.

This rebate, originally enacted for a two-year period, was extended for an additional two years in 1980. Unless extended further, the rebate is scheduled to expire on December 31, 1982. In the House, a two year extension (H.R. 7092) was cleared by this Committee on September 15, 1982; this measure is currently pending before the

Committee on Rules. A proposal to extend the rebate for one year has already passed the Senate as an amendment to H.R. 5470.

I am testifying today to emphasize the fact that this Committee has already determined that the taxicab industry should be, in effect, exempt from the excise tax on fuels. The reasons supporting the current rebate apply with equal force to ITA's request that any increase in the excise tax not be assessed against the taxicab industry.

1. Were our industry, composed primarily of small businesses, to be hit with an additional gasoline tax, the financial stability of many of our smaller members would be seriously jeopardized.

2. In many cities the taxicab industry is the sole surviving private sector provider of intra-city transportation. As such it must compete with public mass transit systems which are exempt from the federal excise tax in question. Our ability to survive along side those systems and to continue to provide supplemental mass transportation service would be severely curtailed should our current rebate not be extended.

3. Perhaps most importantly, the Committee should recognize that taxicabs are not substantial users of the interstate highway system, which ITA understands will be the primary beneficiary of the increased revenue generated by the additional 5 cents per gallon excise tax.

ITA respectively suggests that, at a minimum, any proposal to increase the federal excise tax on fuels contain a provision which would amend section 6427(e)(3) of the Internal Revenue Code to read as follows: "This subsection shall not apply after April 1, 1990." By making this simple amendment, it will be made clear that the taxicab industry rebate will not expire and will apply both to the current 4 cent tax and to the proposed additional 5 cent tax. The proposed April 1, 1990 expiration date is consistent with the other termination provisions contained in the Administration's proposed bill.

While an extension of the current rebate provision is a step in the right direction, ITA would like to take this opportunity to endorse the more comprehensive approach to this issue, namely, H.R. 5166, which was introduced by two members of this Committee, Congressmen Duncan and Heftel. H.R. 5166 is a logical extension of the current rebate provision found in Section 6427(e) of the Internal Revenue Code.

ITA suggests that it would be appropriate to attach H.R. 5166 to any bill addressing the issue of excise taxes on fuel. H.R. 5166 would accomlish the following:

1. The current temporary exemption of the taxicab industry from this tax would be made permanent.

2. The rebate procedure, which is both inefficient and overly burdensome for the owners of small taxicab operations, would be replaced by a true exemption. Both the government and the taxicab operator would be spared the administrative burden of applying for, processing and remitting tax refunds.

3. The current ride-sharing requirement (neither company policy nor government regulation may prohibit ride-sharing) would be amended by deleting the reference to governmental regulations. In this manner, taxicab companies in such cities as New York, where municipal ordinances preclude ride-sharing, would be eligible for exemption from the federal excise tax on gasoline.

4. The 100 percent compliance with EPA fuel standards requirement would be reduced to a 75 percent test. Such a reduction takes into account the fact that taxis must of necessity be larger in order to accommodate luggage and to facilitate the transporting of groups of passengers.

5. The current requirement that the taxicab company be the ultimate user of the fuel would be clarified by permitting the exemption to apply when taxicab companies purchase fuel for resale to taxicab drivers who lease their taxicabs from the company.

Mr. Chairman, H.R. 5166 is fully compatible with the congressional purpose which led to the original enactment of section 6427(e). The use of taxicabs in intracity travel serves to limit substantially the number of private automobiles required in our downtown areas, thereby easing congestion and reducing our national gasoline consumption. H.R. 5166 would reduce the burdens on the Internal Revenue Service and on the taxicab industry without disturbing or modifying the substance of the industry's exemption from the Federal excise tax.

ITA therefore urges that, in conjunction with its consideration of the proposal to increase the excise tax on gasoline and other fuels used for highway transportation, the Committee also consider H.R. 5166. At a minimum, ITA urges the extension of the current rebate program until April 1, 1990.

Lehigh Portland Cement Co.,
Allentown, Pa., November 30, 1982.

Hon. **Dan Rostenkowski,**
Chairman, Committee On Ways and Means,
Washington, D.C. 20515

Dear Mr. Rostenkowski: The 5 cent per gallon increase in federal gasoline tax represents a badly needed source of funds to restore the nation's highway network. The deterioration of our roads and bridges is appalling, but hardly surprising when one considers that the Highway Trust Fund has been supported by a fixed 4 cent per gallon rate since 1959. The current buying power of a 1959 penny is about 25 percent of the original amount.

Going back to the mid-fifties, highways have occupied a high priority in this country and with strong justification. Swift and economical mobility is important for commerce, defense, and personal convenience. The multi-billion dollar investment in our highway program deserves an adequate, long-term, reliable financing mode. Hand to mouth, year to year, ad hoc legislative patchwork is not the answer.

We urge your support of increased user taxes and a multi-year highway bill as necessary steps to preserve one of our country's most valuable assets.

Yours sincerely,

W. J. Young.

Louisiana Bio-fuel, Inc.,
Metairie, La., December 1, 1982.

Hon. **Dan Rostenkowski,**
Chairman of the House Ways and Means Committee,
Washington, D.C.

Dear Chairman Rostenkowski: I am vice-president of and one of the original investors in Louisiana Bio-Fuel, Inc., a renewable energy enterprise that will be affected by proposed legislation to increase the federal excise tax on motor fuels. I am writing to urge continuation of the 4 cents federal excise tax exemption for alternative fuels, created in the Windfall Profits Tax Act of 1980.

Although the 4 cents federal excise tax exemption costs the federal government $0.40 (forty cents) for each gallon of alcohol sold as fuel, one bushel of corn is removed from the current grain surplus for every 2.6 gallons of ethanol produced. If each bushel cost the government as little as 15 cents in storage costs and/or support payments, or even in defaluts on FmHA loans from financially strapped farmers, the loss in fuel tax revenue is completely offset by savings in federal farm program expenditures.

A reduction in farm support payments, however, is not the only benefit plants like mine will create for our nation. The continuance of the excise tax exemption, as an added incentive to build and operate alternative fuel plants, will result in:

A secure renewable domestically produced energy source; A viable environmentally acceptable replacement for lead as an octane additive in gasolines; A value added alternative to costly storage of grains an subsidy payments to grain farmers; and New industrial investments in facilities that produce alternative fuel from domestic crops, replacing imported oil.

However the new excise tax increase is handled, I urge you to work for the continuation of the existing exemptions for grain-to-energy facilities. Current industry and government estimates indicate the following:

1981 cost to U.S. Government: $80,000,000. Source of Loss: $.40 per gallon excise tax exemption for alcohol fuel.

1981 savings to U.S. Government: $165,000,000. Source of savings: Department of Agriculture surplus corn set aside payments and grain storage costs saved as a result of conversion of corn to ethanol.

To the extent that farm support policies cost the government well over $.15 per bushel (in fact, the above figures indicate that this cost approaches $2.15 per bushel), I urge you to expand the exemption to include the new $.05 a gallon proposed excise tax increase.

Sincerely,

Wm. Fields Leake.

MARYLAND INDEPENDENT TRUCKERS
AND DRIVERS ASSOCIATION, INC.,
Baltimore, Md., December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: The attached statement is submitted jointly by the Maryland Independent Truckers and Drivers Association, Inc., a group of owner-operators and drivers residing in Eastern Seaboard states, and the Truckers Action Conference, 1109 Plover Drive, Baltimore, Md. 21227, which is a small group of persons from around the country who are associated with the trucking industry either as owner-operators or small fleet owners.

We hope that the Committee will consider our statement along with others submitted orally today in the hearing concerning proposals to raise the highway use taxes.

We thank you for the opportunity to present our views.

Yours truly,

RITA BONTZ,
President, MITDA.
THEODORE E. BROOKS, Sr.,
Director, Truckers Action Conference.

Mr. Chairman and Members of the Committee on Ways and Means: The members of the Maryland Independent Tuckers and Drivers Association and the Truckers Action Conference are stunned by the proposals to raise the highway use taxes.

These proposals come at a time when our expenses are at an all-time high—when freight rates are being cut far below our cost of operations—and when the amount of available freight is at a low.

We are fighting the most serious battle for survival that we have ever known. The trucking industry is in a tumultuous period as its components strive to adjust and survive the effects of deregulation initiatives that have already taken place.

We recognize that many of the Nation's highways and bridges are sorely in need of repair and replacement. We know that we, as do all highway users, contribute to the deterioration. We are willing to bear our fair share of the cost to repair and replace the highways and bridges.

But we believe that we have not only been paying our fair share over the years; we have been paying more than our share. And now we are being asked to pay astronomical increases in highway user fees and are being told that 20 percent of that money will be parceled out in block grants to states and cities to update and repair urban mass-transit systems.

This Nation needs a stable, safe, and efficient trucking industry. And it needs independent truck owner-operators who are such a vital part of that industry. For example, we haul most of the Nation's produce and meat, much of its processed foodstuffs, nearly all of its heavy equipment, steel, a large portion of its manufactured goods, and a significant portion of military shipments.

These proposals will drive many of us out of business—forever. Truckers who have for years provided reliable service at a reasonable cost will disappear. They will be replaced by the inexperienced—those who will be able to survive in the industry only long enough to cause problems.

We are not asking to be excluded from helping to pay for the repairs and replacement of highways and bridges. We are only asking that our payment be a reasonable share.

It is unreasonable, we believe, to expect one group of users to bear such a disproportionate share of the costs. The proposals are being touted as costing the average motorist $30 a year. Not bad if it brings us road repairs and replacement. That's less than the cost of a pair of shock absorbers for the average automobile.

But let's look at what it will cost the average trucker. Most truckers will pay the $2,700 fee—or close to it. If the trucker drives 100,000 miles a year—not an unusual amount—there's an extra $1,000 for 20,000 gallon of fuel (at 5 miles per gallon). Increases in taxes on truck sales, parts, tires, tubes, and so on could add as much as $1,500. How does that compare with the $30 the average motorist pays? Is it in proportion?

This bill is being promoted as a measure to create new jobs. We see it in a different light. Our assessment of this bill can be summed up in three paragraphs.

First, the net gain in jobs will be minimal at best. We predict this bill, if enacted, will be a boondoggle in the truest sense of the word. There will be so many trucking industry people thrown out of work that their numbers may actually equal the projected number of created jobs.

Second, we truckers spend twenty, thirty, even forty years of our working lives on the highways. We watched the Interstate System being built. We see the repair work being done. We are out there every day and we can state in all sincerity that the major part of this work is not up to the standards which highway users have been paying for. One instance among hundreds comes immediately to mind. One of the writers of this statement travelled Interstate 80 acrosss Pennsylvania the day it was opened. We saw hundreds of pavement cracks, concrete slabs rocking under the weight of vehicles and shooting muddy water 6 feet in the air, bridges so rough they threatened loss of vehicle control. All of this on the day the road was opened to the public. This is only one of many examples of poor design, poor workmanship, poor supervision, and waste of our money which are repeated over and over from coast to coast.

There is ten times more highway damage caused by poor construction and skimpy material than was ever caused by truck traffic. Truckers pay for this fraud in damage to their equipment, injury to their health, and damage to the goods they haul. Further taxation adds insult to literal injury.

Finally, passage of this bill in its present form would constitute an inflationary quick-fix for the sake of political expediency. It would place cost in varying degrees on those least responsible for the condition of our highway system and in large part on an industry which is least able to pay the grossly unfair and unrealistic share proposed by this measure.

We realize the fuel tax is unchanged over the last 23 years. We accept the 5 cent increase as reasonable and fair. To put this in perspective, the average truck will pay tax on 20,000 gallons of fuel per year, a rate of payment at least 40 times that paid by the average motorist.

We deem totally unacceptable the astronomical proposed increases in user and excise taxes. And we especially reject the concept of diversion of highway taxes into non-highway uses. We consider these sections of the bill to be unfair, unlawful, and confiscatory.

We sincerely hope the Congress will consider the potentially devastating long-term effect of this bill as it is now written. And finally, we hope the Congress will take the steps necessary to ensure that those who provide the funds for the Highway Trust Fund receive fair value for the taxes paid.

Thank you for considering our views.

STATE OF MONTANA,
OFFICE OF THE GOVERNOR,
Helena, Mont., December 2, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
Washington, D.C.

DEAR REPRESENTATIVE ROSTENKOWSKI: I support the National Corn Growers Association's proposal to exempt alcohol fuels from the gasoline tax increases. Montana has encouraged the expanded production and use of such fuels.

Adoption of this exemption is essential to the future of a domestic alternative fuels industry based on a renewable resource. It will provide economic support to Montana producers, aid our ailing agricultural economy, and create needed jobs.

Sincerely,

TED SCHWINDEN, *Governor.*

NATIONAL ASSOCIATION OF TRUCK STOP OPERATORS,
Alexandria, Va. December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the members of the National Association of Truck Stop Operators, I would like to submit for the record our comments on the proposed legislation for highway funding.

NATSO strongly supports the efforts currently being made by the Administration and Members of the U.S. Congress to develop a program which will re-energize the nation's interstate system. The National Association of Truck Stop Operators would like to support the proposed 5¢ per gallon increase in the federal motor fuels excise tax, but we do have some reservations about other proposals being aired.

It is our concern that the real issue in this debate—re-energizing highways—may become bogged down over technical matters relating to road use by heavy-duty trucks and the formula by which they should be made to pay their fair share. We would encourage you and the members of your Committee to take a hard look at the various excise taxes recommended by the Department of Transportation. These items have created so much controversy that it may be necessary, in order to accomplish the primary goal of funding the highway system, to drop them from consideration until the new Congress convenes.

We would like to take this opportunity to associate ourselves with the testimony presented to your Committee by representatives of the American Trucking Association. In addition to the elements outlined by the ATA, we would also like to associate ourselves with the remarks of the National Oil Jobbers Council with regard to an adjustment in the remittance schedule. Many of our members are excise tax collectors with the same cash-flow problems attendant to a twice-monthly deposit requirement. We would encourage you to adopt the NOJC recommendation of once-per-month excise tax remittance schedule on the 15th day of each month following the tax collection month.

Enclosed for your review is a copy of the NATSO Position Paper on Highway Funding. Thank you for your consideration of our views.

Sincerely,

RONALD L. ZIEGLER, *President.*

Enclosure.

POSITION PAPER—HIGHWAY FUNDING LEGISLATION

The National Association of Truck Stop Operators strongly endorses legislation which will establish a fair and easy-to-administer system of raising revenues to re-energize the nation's highways. We would stress, however, that the procedures established must be equitable in approach so that one segment of the users of the highway transportation system are not called upon to carry an undue tax burden or subsidize other segments which will not be taxed at their fair share. With these views in mind, the following are essential elements of proposed highway funding legislation which the National Association of Truck Stop Operators can support:

1. 5-cents-per-gallon increase in Federal motor fuels excise tax.—We feel that 90% of the fuel tax increase should go toward repairing and maintaining the Interstate sytem. However, if no less than 4¢ is channeled into the Highway Trust Fund we support it.

2. Federal minimum standard in truck weights and lengths.—This issue has been the subject of legislative debate since the beginning of the 97th Congress. Because of the barrier to interstate commerce created by the standards set by the States of Illinois, Arkansas and Missouri, this provision is absolutely essential. We endorse minimum Federal standards of 65' length, 102" width, and 80,000 pounds gross vehicle weight.

3. Elimination of or no change in current excise taxes on new equipment/truck parts.—While it is our contention that these taxes bear no relationship to use or impact on highways, in the interest of accommodation, we would accept these taxes as long as no increase in the amount or manner of tax is made.

4. No change in current definition of heavy-duty truck.—The current definition of heavy-duty truck is any over 26,000 pounds. It, as some have proposed that definition is changed to trucks over 55,000 pounds, there will be a disproportionate tax burden levied on those trucks, one which is unrelated to road use and impact.

5. No change in incremental system of road use tax.—The current incremental tax which employs a dollar-per-thousand-pound formula more equitably distributes the tax burden amoung trucks which use the highways than would a formula that would allocate costs only to trucks over 55,000 pounds. We could support an increase in the current three dollars per thousand to six dollars per thousand, as long as it includes all trucks over 26,000 gross vehicle weight.

STATEMENT OF DONALD A. FREDERICK, ASSOCIATE GENERAL COUNSEL, NATIONAL COUNCIL OF FARMER COOPERATIVES

The National Council of Farmer Cooperatives is a nationwide association of cooperative businesses which are owned and controlled by farmers. Its membership includes 114 regional marketing and farm supply cooperatives, the 37 banks of the cooperative Farm Credit System, and 31 State councils of farmer cooperatives. National Council members handle practically every type of agricultural commodity produced in the U.S., market these commodities domestically and around the world, and furnish production supplies and credit to their farmer members and patrons. Two-thirds of U.S. farmers are affiliated with one or more cooperatives. The National Council represents about 90 percent of the more than 6,400 farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

An efficient and affordable national transportation system is vital to modern agriculture. It must be ready to serve a variety of origins and destinations for various commodities and varying amounts. It must be able to meet our ever increasing demand for food, both here and abroad.

The trucking industry is a vital component of the transportation system serving agriculture. Trucks haul practically all of the milk, poultry, eggs, and livestock; 85 percent or more of the fresh fruits and vegetables; about 85 percent of the meat; and most of the short-haul grain and farm supply movements.

The ability of this industry to serve agriculture most efficiently is hampered by several obstacles. Two of the biggest impediments to greater productivity are the deteriorating condition of our roads and bridges and the unjustifiable state restrictions on truck length, width, weight, and double-trailer combinations.

While we are supportive of the overall efforts to hold down both federal spending and taxes, we have endorsed up to a five cent per gallon increase in the federal tax on gasoline, provided artificial barriers to truck productivity on federal-aid highways are reduced to generate savings to offset the impact of the tax.

The productivity increases we desire have already been approved by the House Public Works Committee when it favorably reported H.R. 6211, the Surface Transportation Assistance Act of 1982. They are:

1. National minimum length standard of 48 feet for a single trailer and 28 feet each for double trailers. States would be prohibited from setting overall vehicle length limitations.
2. States would be prohibited from banning the use of double trailers.
3. National minimum standard for overall gross vehicle weight of 80,000 pounds.
4. National truck width standard of 102 inches.

Most of these productivity improvements are also included in S. 1402, reported favorably by the Senate Commerce Committee.

It is also imperative that any increase in the gasoline tax should be dedicated to highway maintenance and improvement. Our current need for better roads is simply too great to permit diversion of these funds to urban transit or other government programs.

We have had an opportunity to review the Senate version of the new Administration plan, S. 3044, the Highway Revenue Act of 1982. We are particularly pleased with section 223, Commercial Motor Vehicle Weight; section 403, Commercial Motor Vehicle Size; and section 404, National Uniform State Regulations. Enactment of these provisions would have both an immediate and a longterm positive impact on truck productivity.

We are concerned that sections 106, 107, and 109 place an undue financial burden on longhaul truckers, and will have a negative impact on farmers and farmer cooperatives who must use heavy trucks to meet their transportation needs. We are opposed to section 103, which takes 1 cent per gallon of tax collected from highway users and gives it to urban transit.

We have not as yet had time to access the allocation formulas to determine if they provide for vital rural road and bridge construction and maintenance.

Thank you for this opportunity to present our views on this important issue to American agriculture.

National Oil Jobbers Council,
Washington, D.C., November 30, 1982.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means,
Washington, D.C.

Dear Mr. Chairman: On behalf of the National Oil Jobbers Council (NOJC) and its 42 state petroleum marketing association affiliates, we would like to submit the following comments for the record regarding the proposed increase in the federal motor fuels excise tax.

At present, our membership of 18,000 independent small business petroleum marketing companies deposits nearly one-half of the motor fuels excise taxes into the U.S. Treasury. We currently remit the tax deposits on a twice-per-month schedule as determined by IRS regulation. These deposits are due on the 24th and 9th of each month.

The current remittance schedule has been a problem for many of our small business members because our collection of tax dollars does not coincide with the remittance schedule. The vast majority of taxable sales are to retail service station dealer accounts, which are payable to the marketer within 30 days, although in many instances incentives, such as a one percent discount if paid within 10 days, are added to encourage prompt payment. These payments, however, are not always returned to the marketer by the time of the scheduled IRS tax remittance. This places a significant financial burden on our small business membership. Oftentimes marketers are required to borrow funds at several points over the prime rate in order to assure the federal government prompt payment of their excise tax dollars. The proposed increase of 125 percent (from the current four cents per gallon to nine cents per gallon) will only escalate the current cash flow problems associated with remitting federal taxes on the twice-per-month regulatory schedule.

As small businesses our members usually do not have in-house accounting capability. All excise tax and state tax collections and remittances require professional outside accounting; thus our members incur non-reimbursable costs associated with handling excise tax dollars. At present it is estimated by NOJC that the cost of handling these tax receipts and accounting for them amounts to $6.3 million annually. The proposed increase would escalate the handling and accounting costs to approximately $14.3 million. We realize that as good Americans our companies are doing their part for their government by collecting tax dollars. However, when taxes increase at such a pace the financial burden threatens the economic stability of thousands of small businesses. Virtually 95 percent of our national membership is classified as small business by the Small Business Administration. These small companies, which tend to employ 15 people and serve 10–12 retail service station outlets, are hard pressed to keep up with the present federal excise tax remittance schedule let alone a 125 percent increase.

Another factor which should be considered is the marketer's risk of loss in collecting, accounting for, and remitting federal tax dollars. With the proposed increase our members must handle far greater sums of federal money. While we are bonded to insure federal payment, we are not insured for losses due to business failure or abandonment of a retail station by a dealer. No matter the risk we must pay. Our stations are also likely targets for hold-ups and robberies. Consider that in many rural areas the local gasoline station will have more cash-on-hand than the local branch bank on any given day. These elements all point to a need for a revised excise tax remittance schedule which better reflects the realities of current day collections, business financial problems and credit costs.

NOJC suggests that the federal government revise the current excise tax remittance schedule at the time of implementation of any new tax increase. Congress could amend the excise tax increase proposal before it in such a way as to alleviate the cash flow burden on small business. The most realistic schedule of excise tax remittance, which would enable marketers to collect tax dollars and remit them with a minimum of expense and cash flow interruption, would be a once-per-month remittance schedule. We suggest that submitting tax receipts each month on the 15th day would enable our members to fully collect and remit all the tax dollars due to the Treasury from the preceding month. Once-per-month remittance might also reduce Treasury Department costs associated with twice-per-month collections.

We urge the House Ways and Means Committee to amend the current excise tax proposal to allow for a more reasonable once-per-month excise tax remittance schedule on the 15th day of each month following the tax collection month.

Respectfully submitted,

MICHAEL T. SCANLON, Jr.,
Vice President.

NATIONAL SAND AND GRAVEL ASSOCIATION,
NATIONAL READY MIXED CONCRETE ASSOCIATION,
Silver Spring, Md., December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, House Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: The National Ready Mixed Concrete Association and the National Sand and Gravel Association urge prompt enactment of the proposed five cent increase in the federal fuel tax. We are pleased to note that this proposal, long supported by our two Associations, now has the backing of the Reagan Administration as well as support from the bipartisan Congressional leadership.

The additional revenues generated by this increase should provide the necessary funds to begin the mammoth job of repairing and restoring the national highway system. We continue to request that a multi-year highway authorization bill be passed before the end of this year to meet these needs. Included in that legislation should be a provision increasing allowable vehicle weights to 80,000 pounds on all federally-aided highway systems. States electing to have even higher weight limits should be permitted to continue to do so under the so-called "Grandfather Clause".

Finally, these two Associations strenuously oppose the application of Davis-Bacon wage requirements to new projects under the 4-R program. We applauded the efforts, earlier this year, of FHWA Administrator Ray Barnhart to limit the applications of the Davis-Bacon Act to this kind of work. Now is the time for the Congress to completely eliminate Davis-Bacon wage rates for any 4-R work to save needless expenditure of public funds for subsidizing already well paid construction workers.

Sincerely,

KENNETH R. TOBIN,
Director of Legislative Affairs.

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION

The National Taxpayers Union, representing 450,000 family members who live in all fifty states, opposes the proposed increase in motor fuel taxes. The proposal is poorly designed and will not reduce unemployment nor will it efficiently repair our nation's roads.

Let's look at what this bill will not do. First, it will not create jobs. Economists have indicated that the best that can be hoped for is a wash, that is, as many jobs will be created as will be destroyed. Martin S. Feldstein, Chairman of the Council of Economic Advisors, estimates that as many as 20,000 jobs could be lost.

This increase in unemployment caused by the gas tax increase flows from several factors. Consumers will have less money to spend on other consumer items if the price of gasoline and motor fuels goes up. As consumer spending declines in those areas, jobs will be lost. These jobs will be quickly lost because the gas tax would go into effect immediately, while jobs created by highway projects may take several years. Even if there is no net effect on total employment, jobs serving consumers would be destroyed before jobs building highways would be created.

Fewer jobs will be created because of the Davis-Bacon prevailing wage guidelines. According to Barry Bosworth, an economist at the Brookings Institution, "to build highways will put a lot of people to work for wages higher than those earned by two-thirds of the American work force." These artificially high wages force contractors to hire fewer workers.

Finally, the sharp, sudden increase in the gasoline tax will also cause some dislocation in the automobile industry. With higher gasoline prices, more car buyers will switch to more fuel efficient imports.

The proposal is not a repair bill. Two-thirds of the monies from the tax increase are targeted for new projects rather than actual repair and upgrading of existing roads. In addition, one cent is earmarked for urban mass transit.

There are severe problems with roads in some states. However, the Department of Transportation's report, The Status of the Nation's Highways: Conditions and Performance, concludes that by and large the system is in good shape. Those states that have poorly maintained roads should address their problems at the state level. It makes no sense that people who live in states where roads are in good condition should subsidize people in other states who have let their roads deteriorate.

Finally, the proposed motor fuel tax increase in not a user fee. True user fees are based on the costs of providing a public service. High volume users would pay more, while those who use the service less would pay less. The largest deviation from the user fee concept is the fact that the proposal does not do enough to distinguish between vehicles that cause heavy damage and those that do not. For example, a 50,000 lb. and an 80,000 lb. truck will consume approximately the same amount of fuel, but the heavier truck can cause six times more damage.

Other problems are caused by the exemption for gasohol, and differences in fuel efficiency between older and newer trucks. Of course, the portion of the gas tax increase that will pay to subsidize mass transit is obviously not a user fee.

Congress should reject the proposed motor fuels tax increase, and move to defederalize the nation's highway program. States are experimenting with new and innovative ways to finance highways. These experiments can only continue if the federal government reduces, rather than increase, its role.

STATE OF NEBRASKA,
Lincoln, Nebr., December 2, 1982.

Congressman DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: I would like to add my support to that of Governors Thompson, Orr and Ray for the extension of the federal excise exemption for alcohol fuels to include the proposed 5¢ per gallon increase currently under consideration by Congress.

The agricultural economies in Nebraska and across the country must find stable and significant markets for agricultural products in addition to creating new employment opportunities. An exemption of alcohol fuels from the Motor Fuels Excise Tax will substantially assist the achievement of these goals.

I support the efforts of the National Corn Grower's Association to continue the national policy on this issue.

Respectfully yours,

CHARLES THONE, *Governor.*

NOVEMBER 22, 1982.

Hon. DAN ROSTENKOWSKI,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: I am writing to you, as Chairman of the Ways and Means Committee, to express my opinion on the proposed five cents per gallon increase in the motor fuels tax (4 cents on fuel, 1 cent equivalent on parts and trucks).

Mass transit should definitely receive a share of the funds provided by this tax. Efficient mass transit is essential to the revitalization of our cities. In addition, a portion of the money should be allotted to Amtrak and to establish high speed rail corridors. There are many people who are unable to drive an automobile; who can not afford the increasing cost of automobile ownership; or who do not want to expose themselves to the hazards of automobile travel.

To provide funds for improvements in the nation's transportation system I recommend portioning the revenue from the 5 cents per gallon fuel tax as follows:

Two cents (approximated 2 billion dollars) for repairs to existing highways and bridges.

One-half cent (approximated 500 million dollars) for Amtrak equipment, track rehabilitation, and station construction and improvements. Additional train sets are needed to provide more frequent service at reasonable hours. This will allow more cost effective use of existing facilities, and could produce added income from mail and package hauling.

One-half cent (approximated 500 million dollars) for high speed rail construction and equipment. This money will supplement private and State funds, and will permit imposing requirements that equipment be manufactured in the United States.

Two cents (approximated 2 billion dollars) more mass transit construction and equipment.

It is true that repairs are needed on the highway system, but I feel that the extent of the repairs needed has been exaggerated by the highway and construction lobbies.

I believe we have overbuilt our highway system to the detriment of other forms of transportation. Yet we continue to built multimillion dollar highways such as Westway, the Los Angeles airport freeway, and expressways in Dallas and Houston. These highway facilities just pour more vehicles onto city streets causing traffic congestion, wasting valuable space for parking, and interfering with pedestrian traffic movement.

In order to maintain a balanced transportation system, I recommend that the Highway Trust Fund be changed to a Transportation Trust Fund.

Sincerely,

ADRIAN POST.

PRIVATE TRUCK COUNCIL OF AMERICA, INC.,
Washington, D.C., November 29, 1982.

Hon. DAN ROSTENKOWSKI,
House Ways and Means Committee,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: This is to advise that the Private Truck Council of America supports the proposal to increase the fuel tax in order to undertake the necessary rebuilding of our highways and encourage the resulting stimulus of jobs in the private sector of our economy.

The Private Truck Council of America, Inc., is the only independent national organization representing private corporate truck fleets in the Nation.

Our support of the fuel tax increase is contingent upon:

1. meaningful productivity relief—uniform width and length standards in all of the states—48 feet length for trailers and 102" width along with use of twin trailers;
2. immediate and timely drawdown of Highway Trust Fund monies which has not been the case in recent years; this would assure more rapid achievement of the goal of this legislation which is to get the road renovation underway as soon as possible and stimulate employment in that private sector of our economy as soon as possible;
3. a more efficient manner of collecting the vehicle use tax at the state level contingent upon vehicle registration issuances; this would also enhance the objective of the legislation by solving the delinquent tax collection problem and ensuring that every dollar legally due the Highway Trust Fund goes into it upon collection.

On the matter of the various excise taxes and truck user charges there is no way we can support any increase without corresponding uniform truck weight relief. Our analysis of the new proposals indicates unfortunately that the schedule of increases is based on a cost allocation study that was improperly conducted.

It is upon such a study that a more than 2000% increase in heavy truck taxes is proposed along with a 150% increase in such items as truck tire excise taxes. We also question how a truck part excise tax can be relegated to trucks at a precise weight level. It would be totally impractical to administer.

Therefore, unless such excise and truck use taxes can be brought to a more reasonable level of increase, we respectfully request that they not be considered a part of this legislation in the current session of Congress, but rather be deferred to the new Congress along with the truck weight issue.

Sincerely,

RICHARD D. HENDERSON,
Executive Vice President.

PRIVATE TRUCK COUNCIL OF AMERICA, INC.,
Washington, D.C., December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: Attached is our current proposal to the DOT to break the current logjam on the truck tax issue and keep the entire highway program intact.

Sincerely,

RICHARD D. HENDERSON,
Executive Vice President.

Enclosure.

PRIVATE TRUCK COUNCIL OF AMERICA, INC.,
Washington, D.C., December 1, 1982.

Mr. CHARLES SWINBURN,
Deputy Assistant Secretary for Policy and International Affairs, Department of Transportation, Washington, D.C.

DEAR CHARLIE: We respectfully submit an amendment to the Private Fleet Proposal submitted to you at this morning's meeting which is:

We would support retaining the present $3.00 per thousand pounds level of federal highway use taxes on trucks from 26,000 lbs. to 54,000 lbs. in an effort to sustain the revenue levels desired from the federal highway use taxes.

Attached, then, is our revised proposal which we are now in the process of submitting to key Congressional Members.

I do believe our meeting this morning was fruitful and productive, thanks again for coming.

Sincerely,

Richard D. Henderson,
Executive Vice President.

Enclosure.

PRIVATE FLEET PROPOSAL

A. Support fuel tax.

B. Support truck use tax at this level: from 26,000-54,000—retain present $3.00 per 1,000; from 55,000-70,000—flat $800; from 70,000-80,000—flat $1,200.

We want: (1) S. 1402 length (48 ft. trailers) and width (102" mandatory) and twin trailer provisions; (2) Mandatory 80,000 lbs.; (3) Grandfather rights—provision; and (4) Provisions that the size and weight relief measures go into effect as soon as possible.

C. Immediate and timely drawdown of Trust Fund moneys.

D. A moving up if possible of the January 1985 date of having states tie use tax collection to vehicle registrations in order to solve delinquency problem.

The Procter & Gamble Manufacturing Co.,
Washington, D.C., December 2, 1982.

Hon. Dan Rostenkowski,
House of Representatives,
Washington, D.C.

Dear Danny: We thought you would be interested in Procter & Gamble's position on the Federal-Aid Highway Reauthorization Act.

This legislation, if passed, with the increased truck size and uniform weight will allow us increased productivity in the shipment of our consumer products. We think this is an important consideration for our country's economic recovery.

Sincerely,

Walter A. Hasty.

The Procter & Gamble Co.,
Cincinnati, Ohio, December 1, 1982.

Hon. Drew Lewis,
Secretary of Transportation,
Washington, D.C.

Dear Secretary Lewis: As a major manufacturer and shipper of products important to the American consumer, we strongly support the upgrading and maintenance of our nation's vital system of highways and bridges. For this reason, we support the Federal-Aid Highway Reauthorization Act of 1982 now under consideration in Congress.

This legislation contains provisions for modest changes in size and weight limits for motor vehicles as recommended by your department, namely, the mandatory 80,000 pound maximum gross weight limit, the 34,000 and 20,000 pound maximum axle weight limits, the mandatory 102 inch width limit, maximum length limits not less than 48 feet for single trailers and 28 feet for double trailers, and no length limits on the tractor or overall configuration. We firmly believe that these changes are important to the legislation and will yield increased productivity, better utilization of the nation's system of highways and bridges, and reduced costs to the American consumer.

We, therefore, support your recommendation to the Congress as embodied in this legislation, and shall be conveying our position to key members of Congress.

Sincerely,

D. I. Lowry,
Senior Vice President.

CONGRESS OF THE UNITED STATES,
Washington, D.C., December 2, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is a copy of a statement by Mr. Robert E. Merrill, a member of the Board of Directors of the Virginia Taxpayers Association, who had hoped for the privilege of testifying before the Committee on Wednesday during consideration of the Highway Trust Fund Act.

The views expressed by Mr. Merrill have rather broad support among my constituents, and I respectfully request that his statement be included at the appropriate place in the Committee's record.

With kind personal regards, I remain,

Sincerely,

J. KENNETH ROBINSON.

STATEMENT BY ROBERT E. MERRILL, MEMBER OF BOARD OF DIRECTORS, VIRGINIA TAXPAYERS ASSOCIATION

Mr. Chairman, my name is Robert E. Merrill, and I am a member of the Board of Directors of the Virginia Taxpayers Association. Our organization has been active for 10 years in presenting to Congress, the Virginia General Assembly and public media the broad concerns of the grass roots taxpayers, including the disastrous government overspending which confronts us everywhere, and you will recall the President of our Association, Mr. Kenneth White, gave oral testimony before this Committee on May 1, 1980 against the then-proposed withholding tax on interest and dividends, which statement received favorable comment in Barron's Magazine among other national publications.

The Virginia Taxpayers Association has the distinction of being the only organization in the country that correctly told the Senate Committee on Banking, Housing and Urban Affairs July 30, 1979 at the confirmation hearing of Paul A. Volcker as Federal Reserve chairman that, quoting from our prepared statement then, "inflation can be expected to accelerate at a dangerous rate under his (Volcker's) administration, and his nomination should therefore be rejected by the United States Senate." (UNQUOTE). While in recent months there has been some decline in the dangerous inflation that did in fact follow Volcker's confirmation, it has only come about following bankruptcy of thousands of American businesses and loss of millions of jobs caused chiefly by ruinous interest rates imposed by the same Volcker as a "corrective measure", and we submit that every taxpayer and consumer in this nation would today be far better off if the Senate had listened to the Virginia Taxpayers Association and refused to confirm Volcker in 1979, for this one man at the head of our banking system these last three years has cost all of us untold billions, through his disastrous hiking of interest rates, and indeed billions in taxes just from increased interest on the national debt. Part of our statement at that time was placed in the Congressional Record by Senator Jake Garn, now Chairman of the Senate Banking Committee, on August 1, 1979, page S11301.

The Virginia Taxpayers Association was on the prevailing side following our testimony before the Senate Judiciary Committee June 21, 1979 on the intolerable cost to taxpayers of an additional federal paid holiday, which was placed in the November 9, 1979 Congressional Record in its entirety, page E5547. We also confidently expect to be on the prevailing side following our statement to the Senate Committee on Finance opposing proposals for a flat-rate income tax at that committee's hearings this past September.

Therefore, Mr. Chairman, we believe we have developed know-how and credibility in presenting the views of burdened-down taxpayers and in representing the interests of the vast majority of Americans today.

We are deeply concerned about the "bandwagon" atmosphere that has been created in the media in an attempt to rush through Congress without adequate consideration the legislation that is before this Committee today. We think it is essential that the public be told an informal poll of Ways and Means Committee members on a gas tax proposal by Drew Lewis, Secretary of Transportation, was taken only about two or three months ago, we understand, and that attitudes of Committee members at that time were found to be largely negative to the idea. This Committee certainly used sound judgment at that time in declining to press for any such action, and we see no reason why the Committee should change its mind today.

The first point we want to make is that the proposed five-cent tax on gasoline is a tax, and should not be disguised in minds of the public by the euphemism "user fee". Second, it must be strongly emphasized in view of all the misleading propaganda that is being put out that as a tax, this measure will actually bear hardest on low-income families and the unemployed. Certainly, Congress does not want to inflict additional hardships on these people. For example, has any survey been taken among the millions of unemployed to fine out how many of them would be willing to give the government the price of an extra loaf of bread so they can have "permission" to use their only major possession, an automobile, in order to go looking for a job they may not find, on the basis that if they do give the government this gas tankful tax—loaf of bread equivalent—every time they fill up, there is only a three percent chance that as a result they themselves will get a job.

Third, the approximately 5 billion taken from auto and truck users each year will result in less expenditures for consumer and durable goods, thus more people will be put out of work. In other words, as Martin S. Feldstein, Chairman of the President's Council of Economic Advisers, has already pointed out, the result of this tax increase may be an increase in unemployment, not a decrease, certainly in the next twelve months, which is the same period during which most people in the tremendously important housing industry, for example, now expect their business to pick up, with the normally significant ripple effects on the economy, without this tax.

With these three undesirable features in mind, let us consider the philosophy of such a move. Obviously, if the Federal Government raises the money and doles it out to the States, inevitable controls and regulations will follow along with the money. This is contrary to the present prevailing and growing philosophy, enunciated repeatedly by President Reagan, of reducing the power of the Federal Government and allowing the States to take full responsibility. In a few words, if the roads and bridges need repairing, let the States take care of them. It has not been sufficiently made clear in reports on this gas tax proposal to date that actually hardly any, or none at all, of the money to be raised by this tax will be spent on the federally supported interstate highway system, and therefore it will virtually all constitute intrusion into the State's normal business.

As a consequence of the above discussed undesirable features, we urge this Committee to first consider the correctness of this tax increase idea and make a decision on that aspect before considering further how and where the tax money will be spent.

But we also need to consider the problems which will arise if, God forbid, this Committee should decide to impose this tax increase, which will actually increase the cost of living for all Americans, since most everything we buy today comes to us at some stage by trucks paying these gas taxes and passing along their costs to the eventual consumers. The new money, according to press reports, will be spent in areas where road repairs are most needed, not where unemployment is the highest. Yet we can evision now the pushing and shoving by State Governors for their so-called "share". Are there many road and bridge construction workers unemployed—or rather are most of the unemployed not yet sufficiently skilled to operate highway equipment, rebuild bridges, erect concrete forms, and the like? How long will it take to relocate and train new employees from other industries? Again, as Feldstein has stated, "there would be a year's delay in putting people to work". Hopefully other measures taken by this Administration will begin to show results in more employment by that time, as we noted previously, and this tax increase will have been unnecessary as a "spur to employment".

Historically, programs of the type projected here have provided few jobs per "dollar" invested. A recent New York Times article pointed out that each job created through public works spending on highways, bridges and sewage treatment plants costs the taxpayer from 28,000 to 40,000 in Federal Reserve Note "dollars". So the idea is certainly not efficient from a cost viewpoint.

We in Virginia are particularly concerned over one of the beneficiaries of federal highway aid that could be affected by this program. It has been reported that out of the five-year program of approximately 27.5 billion in increased federal spending, some 6 billion would go to secondary roads and urban transit. If any of this transit money goes into lengthened construction in Virginia suburbs of the already gigantic gold-plated Washington Metro subway system, it could cost all Virginia taxpayers millions in years to come in extra yearly operating expenses which the suburbs themselves cannot possibly pay, either in added fare costs or in county subsidies. Believe us when we say that the Federal Government has burdened taxpayers everywhere from now until kingdom come in its subsidization of construction of this Metro system, which is hopelessly costly to operate.

In summary, Mr. Chairman, we state loudly and clearly that the principal problem facing our country today is too much government. Your every action should be to reduce the size and scope of the Federal Government, not pass a further tax increase that will increase the intake and power of this Government. We must tell you frankly that thanks in part to the largest tax increase in history, which passed through this Committee all to quickly this past summer, in derogation of the United States Constitution, the tax revolt is very much alive and well, and the people are fed up with Big Government and the failure of this Congress to cut spending. We ask you to reject this proposal, no matter how politically feasible it may seem, and to follow the President's original request for no more tax increases.

Thank you.

SERVICE STATION DEALERS OF AMERICA,
Washington, D.C., November 24, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: With regard to the proposed increase in the Federal fuel tax, service station dealers are the only group who are required to pay the tax in advance with their purchase of gasoline in bulk. An average tanker-load will now require a dealer to lay out $720 in advance to pay the tax before he can sell it, if the new tax is nine cents. The average dealer will buy about two loads per week.

The dealer, besides becoming an involuntary tax collector, must now finance his tax investment, then act as the custodian of the tax money and bear all losses from theft, hold-up, or product shrinkage. A dealer can lose hundreds of gallons of product on which he has paid the tax, between the time he buys it and the time he sells it, due to temperature variations.

We believe that the dealer is entitled to compensation of at least 2 percent of the Federal tax which he collects, to cover these items. This would be equivalent to about $14 on the tax collected, on each tanker-load. The states of Maryland, Georgia, Ohio and others have similar allowances in place for their collection of state fuel taxes.

The service station industry is also the leading target for hold-ups. Many of our stations this holiday season, will equip employees with bulletproof vests, for the first time.

We urge you also to consider a provision to make robbing a service station a Federal offense, similar to robbing a U.S. Post Office. This carries with it, a mandatory 25-year prison term.

The new Federal fuel tax on a gallon of gasoline incidentally, will in many cases, be more than double the dealer's profit per gallon.

The current programs imposed by many oil companies, to charge for credit card sales and to encourage cash purchases, will force service stations to handle record amounts of cash. The additional five cents in fuel tax will make the tax collections almost $200 per day in the average service station.

My third proposal would offer dealers a tax credit for each full-service pump the dealer maintains, as a means of maintaining and encouraging employment in our stations.

In the past 10 years, we estimate that nearly 500,000 former service station employees have lost their livelihood. This is due in a great part to the push by oil companies to eliminate full-service stations in a swing to self-serve operation. Many stations which employed perhaps a dozen people as full-service stations, now employ half that number as a split island operation, divided between self-serve and full-serve.

A tax credit of $1,000 per full-service pump, could mean a healthy increase in the number of jobs available in service stations and provide motorists with better service.

Sincerely,

VIC RASHEED,
Executive Director.

[Mailgram]

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY,
Philadelphia, Pa., November 11, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee,
Washington, D.C.

I want to commend you on your support of the 5 cent per gallon user fee on gasoline designed to provide funds for highway and mass transit programs. The Nation's infrastructure is sorely in need of a massive infusion of capital funds. Transportation, in particular, is essential to the recovery of the Nation's economy. Without adequate transit in our cities, the day-to-day commerce would be crippled.

The Southeastern Pennsylvania Transportation Authority strongly agrees with the user fee proposal and we will do everything possible to support it.

LEWIS F. GOULD, Jr., *Chairman.*

TRANSPORTATION ASSOCIATION OF AMERICA,
Washington, D.C., November 12, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
Washington, D.C.

DEAR MR. ROSTENKOWSKI: The Transportation Association of America—a national policy organization composed of transport interests of all kinds: carriers, suppliers, investors, and carriers of all modes—urges your support of an increase in the Federal highway fuel tax, which should more correctly be called a "user fee". Because of the urgency to act quickly in rehabilitating our rapidly deteriorating Federal-aid highway system, we hope that such an increase can be considered and passed by the Congress before the end of the current session.

TAA was a strong supporter of the creation of a Highway Trust Fund and its self-financing through highway user fees; and TAA has continued to support this concept. The present 4-cent per gallon highway fuel user fee has been unchanged since 1959, despite the sharply increasing costs of building our Federal-aid highway system. Unfortunately, these costs in recent years have surpassed the user-charge revenues—thus threatening the financial stability of the Fund itself.

The TAA Board of Directors (see current roster attached) last month formally approved a motion to make rehabilitation of the nation's transportation infrastructure the top-priority policy issue for our Association for the remainder of this, and the next, Congress. Prompt passage of a badly needed increase in the highway fuel user charge would go a long way towards reaching this goal.

Respectfully,

ROBERT HENRI BINDER.

TRANSPORTATION ASSOCIATION OF AMERICA,
Washington, D.C., December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: The Transportation Association of America—a national policy organization composed of transport interests of all kinds: shippers, suppliers, investors, and carriers of all modes—is very pleased that your Committee is giving top-priority consideration to changes in highway user levels so that a direly needed highway rehabilitation program can get under way. Your action is clearly in line with a formal position taken by the TAA Board of Directors on October 8, 1982, that our Association's major policy objective for the year ahead is the rehabilitation of the nation's transportation infrastructure, especially our rapidly deteriorating Federal-aid highway system. A copy of the current membership of the TAA Board is attached.

As pointed out in our letter of November 12 to you and members of your Committee, TAA was a strong supporter of the creation of a Highway Trust Fund and its self-financing through highway user fees; and TAA has continued to support this concept. While the present 4-cents per gallon Federal highway fuel user fee has been unchanged since 1959, the Highway Trust Fund was able to remain self-sustaining on an annual basis because total revenues of years continued to increase as a result of the steady growth in motor vehicle-miles of travel on the highways. Unfortunately, this favorable financial situation has changed in recent years, with total motor vehicle fuel consumption declining slightly in 1979, when dropping sharply by 6 percent in 1980, and continuing downward in 1981 by another 1 percent.

This reversal in motor fuel consumption—and thus Highway Trust Fund revenues—in recent years has ben caused by several key factors. One was the sharp increase in gasoline and diesel fuel prices, which more than doubled between 1978 and 1981. Another was the rapidly declining size, and thus weight, of automobiles and small trucks that proved necessary to meet Federal fuel-efficiency standards; and the third was the introduction of smaller and/or more fuel-efficient engines for use by all motor vehicles, large and small.

While the technological advances in motor vehicle configuration and engine efficiency have proved striking, and thus most beneficial to the nation in conservation of petroleum-based fuel, they have placed the Highway Trust Fund in financial jeopardy because the gap in annual expenditures vs. revenues has been rapidly expanding in recent years. For example, in the fiscal year ending September 30, 1981, total expenditures amounted to $9.174 billion, while total receipts were only $7.434 billion—a gap of $1.740 billion. It is obvious that the balance of $9.259 billion in the Fund—a one-year expenditure level—provides only a small financial cushion under the current level of activity; and it certainly cannot even begin to support any expansion of the highway rehabilitation program that is needed.

TAA has long supported the principle that users of publicly provided transport facilities should pay their fair share of the total costs of such facilities. The Federal-aid highway program has had a remarkable record in compliance with this principle. Increasing the Federal highway fuel user fee—which currently acounts for 70 percent of total Federal highway user fees—would give the Highway Trust Fund a substantial portion of the revenues needed to finance an expanded highway rehabilitation program.

We appreciate the opportunity to express TAA's views on this very important policy issue and sincerely hope that your Committee can come to agreement on a highway user-charge package that will enable the highway rehabilitation program to get under way as soon as possible.

We request that this letter be made a part of the record of hearings by your Committee on the "Financing Needs of the Highway Trust Fund for Fiscal Years 1983-1986".

Respectfully,

ROBERT HENRI BINDER.

STATEMENT OF CHARLES J. CALVIN, PRESIDENT, TRUCK TRAILER MANUFACTURERS ASSOCIATION

The Nation's heavily depressed builders of commercial truck trailers, tank trailers and cargo containers offer their firm support to an increase in the Federal tax on fuel in order to continue much needed maintenance and improvement in the highway program.

We would hope that while considering any increases in the fuel tax, that the extremely serious condition of the truck trailer manufacturing industry could also be given consideration. Our industry is nearing the close of its third consecutive year of devastatingly low production. At this time in 1981 we were down 50.1 percent compared to 1979. Through the first 10 months of this year production is down yet another 26.9 percent from last year's serious decline. Plant closings and employee layoffs in our industry are commonplace.

Since 1956, the 10 percent manufacturers' excise tax on truck trailers and the 8 percent tax on related parts and accessories have been an insidious administrative nightmare that in time and effort both in industry and Federal sectors cost a dollar to collect a dollar. The primary difficulty with the excise tax law governing truck trailer manufacturers is that it is based on a wholesale distributioin organization, which, in fact, the truck trailer manufacturing industry is not. Only 39 percent of the industry is comprised of owned or controlled wholesale distributors. The revenue generated in no way compensates for the cost and effort expended.

TTMA has long supported full repeal of this burdensome and inequitable tax. The collection of excise taxes on truck trailers averaged approximately $44 million annually for the period 1956-76. The 1956-81 period averaged about $68 million, some of which was due to the last several years of high inflation. These revenues are minuscule when compared to those that would be realized as the result of a proposed five cent increase in the fuel tax that would net some $5.5 billion annually.

In addition, the funds generated by any increase, even one cent per gallon, would provide an opportunity to eliminate all of the variables and inequities that exist in the thousands of regulations and interpretations. The only sensible solution is complete repeal of all excise taxes covering motor vehicles, parts and accessories, oil, tires, tread rubber, tubes and the highway user tax.

While this proposal may seem drastic, or too simple, it would eliminate the ever increasing costs both in the private and Federal sectors of administering and collecting the existing taxes and also provide the revenues necessary to carry out a complete highway maintenance and improvement project. It would also simultaneously rectify a serious oversight which allowed fuel prices to increase some 225 percent without ever producing more than the original 4 cents per gallon to the Highway Trust Fund.

UNITED PARCEL SERVICE,
Washington, D.C., December 1, 1982.

Hon. DAN ROSTENKOWSKI,
Chairman, Ways and Means Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: As action on the Surface Transportation Assistance Act of 1982 is entering final stages I wanted you to have the views of United Parcel Service on this very important legislation.

United Parcel Service recognizes the need to increase taxes to users of our nation's highways and bridges in order to repair, complete and maintain them. We are willing to pay our fair share to meet these objectives, as indeed does the entire motor carrier industry.

UPS fully supports the tying together of increased user charges with uniform standards of size and weight for commercial motor vehicles. It is our understanding that most parties are willing to go along with the size and weight changes, but there are disagreements on the proper level of user charges for heavier trucks.

We have examined the tax proposals of the Department of Transportation as stated in testimony before your Committee on Wednesday, December 1, 1982, and we are willing to support them. We also have reviewed the recommendations of the American Trucking Associations and also can support them.

We know that the Ways and Means Committee is working earnestly to find an acceptable solution within the bounds of these two plans in order to move this legislation forward. If this is done and the size and weight standards are included, United Parcel Service stands ready to support passage of the bill.

By no means, however, would we recommend proceeding with just the fuel tax increase and abandoning the size and weight provisions. Such a move would increase costs of operations without the ability to absorb some of them through improved efficiency.

You have our best wishes for rapid and successful completion of the legislation which is sorely needed, not only to rebuild our roads, but to help our nation's economy.

Sincerely,

ROBERT E. SMITH,
Vice President.

STATEMENT OF THE UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and members of the Subcommittee, the U.S. Conference of Mayors is pleased to provide you with our views regarding the financing of the transportation infrastructure.

The urban infrastructure, of which transportation is a major component, is one of the most serious problems facing cities today. It is clear to Mayors that unless we quickly improve the state of our roads, streets, bridges, highways and transit system, economic growth and jobs will simply bypass cities.

No level of government should be required to bear the full burden of revitalizing our surface transportation systems. In the nation's cities we have done our part over recent years. As the Federal Government has reduced and withdrawn its role in key areas, cities have raised taxes, increased fares, streamlined plans, developed unique financing techniques to maintain to the degree we could the various urban transportation systems. It is time to restore an appropriate national role in ensuring a sound foundation for urban transportation.

The U.S. Conference of Mayors has supported Secretary Lewis' plan from its inception as indicated by the attached policy resolution. An increase in the Federal gasoline tax of five cents with one cent earmarked for public transportation is long overdue. No Mayor likes to see tax increases of any kind. But every Mayor knows that infrastructure renewal requires a partnership and that the Federal Government is several years behind in meeting its basic responsibilities in this area.

The Conference urges the Committee to move quickly to report the essence of the Administration's revenue proposals to the floor of the House. Fortunately, the key elements of authorizing legislation to accompany this committee's revenue measure already exist in H.R. 6211. Under the leadership of Chairman James Howard, H.R. 6211, passed by the Public Works and Transportation Committee in May, provides authorization levels completely consistent with the proposed revenue act, and also renews and extends excellent delivery mechanisms for both the highway and transit sides. By setting realistic levels for Interstate construction, Interstate rehabilitation, bridge and Federal Aid Urban, among other programs, H.R. 6211 will provide the Nation with a road program which meets the needs of the 1980's. By allocating the one cent for public transportation into a capital discretionary program, H.R. 6211 would guarantee a national transit investment program of sufficient size and flexibility to meet the many diverse transit needs of the Nation's cities.

The Conference hopes that the revenue act passed by this Committee, joined with H.R. 6211 would receive quick passage by Congress as the basic element to a long-term national transportation investment program.

Thank you for your consideration.

Transportation and Communications

Public Transportation and Highway Reauthorization

WHEREAS, the urban infrastructure is essential to national economic development and growth; and

WHEREAS, public transportation and streets, roads, bridges, and highways are important parts of that urban infrastructure; and

WHEREAS, financing the urban transportation infrastructure must be a local-state-federal partnership; and

WHEREAS, the federal contribution to this partnership must be adequately funded and flexible, recognizing both the transportation needs of cities and their differences; and

WHEREAS, the U.S. Conference of Mayors has called for the creation of a highly flexible public transportation block grant which would permit localities to use it for capital and operating assistance as well as a discretionary program; and

WHEREAS, the U.S. Conference of Mayors has urged the retention of the Federal Aid Urban System at the current federal share of 75 percent; and

WHEREAS, the U.S. Conference of Mayors has urged adequate funding for the Interstate Transfer, bridge program, and other important federal-aid highway efforts; and

WHEREAS, the Congress is now moving in the direction of the suggestions of the nation's mayors; and

WHEREAS, the United States enjoys a highway system that is a wonder to the world, an asset that is increasingly over-used and under-financed, due to inflation and outdated revenue levels; and

WHEREAS, the federal fuel tax is now four cents a gallon, as established in 1959; and

WHEREAS, the replenishment of the Highway Trust Fund from this source no longer can provide sufficient road construction and maintenance funds, along with the cost of capital expenses for the nation's mass transit systems,

NOW, THEREFORE, BE IT RESOLVED that the U.S. Conference of Mayors commends the members of the House Public Works and Transportation Committee, the Senate Banking, Housing and Urban Affairs Committee, and the Senate Environment and Public Works Committee for their sensitive understanding of the transportation needs of the nation's cities in their transportation reauthorization work; and

BE IT FURTHER RESOLVED that the U.S. Conference of Mayors urges the Congress to continue its efforts towards passage this year of an adequately funded, multi-year omnibus reauthorization bill for highway and public transportation programs; and

BE IT FURTHER RESOLVED that the U.S. Conference of Mayors urges the Administration to support the Congress in its reauthorization efforts; and

BE IT FURTHER RESOLVED that the U.S. Conference of Mayors, to promote the provision of realistic revenues for today's higher costs, goes on record:

- in support of the Secretary of Transportation's proposal to increase the federal tax by five cents per gallon at the pump; and
- in favor of committing one cent per gallon of the increase to mass transit funding.

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